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1 P R O C E E D I N G S

2 (Transcript follows in sequence from Volume  
3 19.)

4 CONTINUED EXAMINATION

5 BY MR. RAPPOLT:

6 Q Mr. Hevert, the testimony I gave you earlier,  
7 Exhibit No. 679 -- you have that with a clip on it?

8 A Yes, I have that.

9 MR. LITCHFIELD: Hopefully -- this might be  
10 one of the testimonies that we've already  
11 stipulated into the record that -- I don't know.

12 CHAIRMAN BROWN: I was looking at that  
13 earlier.

14 MR. LITCHFIELD: It's 2008, if it rings a  
15 bell.

16 CHAIRMAN BROWN: There is one. I thought  
17 there --

18 MR. RAPPOLT: It may be --

19 CHAIRMAN BROWN: 671. I have -- 671 was June  
20 2014 New Mexico test- -- testimony comparison.  
21 Check out 671.

22 MR. LITCHFIELD: Maybe Mr. Sayler can confirm.

23 CHAIRMAN BROWN: Mr. Sayler, New Mexico  
24 testimony?

25 MR. SAYLER: I will look at confirming while

1 he is cross-examining the witness.

2 MR. RAPPOLT: We can deal with exhibits later,  
3 but I would prefer to have this exhibit in just  
4 for --

5 CHAIRMAN BROWN: No problem.

6 MR. RAPPOLT: -- clarity of the record.

7 CHAIRMAN BROWN: I'm good with that.

8 BY MR. RAPPOLT:

9 Q If we turn to Page 37, in that testimony,  
10 Lines 9 and 10, it says that you calculated your  
11 dividend yield of two periods, both ending  
12 September 5th, 2008, correct?

13 A Yes, that's right.

14 Q Okay. If we go back to Exhibit 684, your work  
15 papers on PE ratios --

16 A Okay.

17 Q And if we can, turn to Page 32.

18 A 32 of 69?

19 Q And then, if you could -- the PE ratio at  
20 September 2008 was around .66, correct?

21 A The -- the relative PE ratio.

22 Q Yes. Excuse me.

23 A Yes, right --

24 Q The relative.

25 A Yes, I agree with that. That's right.

1           **Q**     **Okay. So, in this testimony, if you recall,**  
2     **Mr. Hevert, did you suggest that the DCF results should**  
3     **be discounted?**

4           A     I don't think I did, for two reasons; one is,  
5     in New Mexico, the Commission is quite focused on using  
6     the constant-growth DCF model as their principal method.  
7     And so -- so, I don't know that I would have made that  
8     argument in New Mexico for that reason.

9                     Secondly, as I'm looking at the data right  
10    now, you can see that it wasn't too long until it was  
11    back up to sort of the normal range of the discount;  
12    although, of course, I wouldn't have known that at that  
13    time.

14           **Q**     **Mr. Hevert, isn't that the point of the**  
15     **adjustment; that it's supposed to go back to normal, and**  
16     **that's why you make the adjustment?**

17           A     Oh, no, I mean -- well, I shouldn't say "oh,  
18     no" like that. The point -- well, first off, you say  
19     the adjustment. I didn't make an adjustment. I don't  
20     adjust the results. Although, there is probably a way  
21     to do so, I did not adjust the results. The question is  
22     whether or not the assumptions underlying the model are  
23     likely to hold.

24                     Now, here, you have a situation where the  
25     relative PE ratio was less than one. That's more likely

1 to be the case in a relative PE ratio greater than one  
2 for utilities. So, on that level, it wouldn't bother me  
3 as much.

4 Secondly, as I said, in New Mexico, the  
5 Commission gives principal weight to the constant-  
6 growth method and so my approach gave principal weight  
7 to that method in this case.

8 **Q Okay. We'll let your direct testimony speak**  
9 **for itself.**

10 Mr. Hevert, can you turn to Page 61 of your  
11 direct?

12 A Yes, I'm there.

13 **Q You see Chart 5 there?**

14 A I do.

15 **Q Okay. And the bold line -- it's pretty**  
16 **difficult to see, but the bold line starting at the**  
17 **left, at the top, is the 30-year U.S. treasury bond**  
18 **yield, correct?**

19 A The -- well, no, I think -- I think it's  
20 the -- you're right. This -- this is not a very clear  
21 chart. I apologize for that. But the -- the bold line,  
22 I think, relates to the 30-year treasury yield.

23 **Q Right. Okay.**

24 And it's about 8 percent, and then goes down  
25 to the right --

1           A       Yes, I would agree with that.

2           **Q       -- 3 percent. Okay.**

3           A       Right.

4                   MR. RAPPOLT:  And admittedly, the chart is  
5           hard to read.  If we could get marked the next  
6           exhibit in the packet, which should be Hevert Work  
7           Papers Chart No. 5.

8                   CHAIRMAN BROWN:  We will mark that as  
9           Exhibit 685.

10                   (Whereupon, Exhibit No. 685 was marked for  
11           identification.)

12                   CHAIRMAN BROWN:  And Mr. Hevert, you have a  
13           copy of that?

14                   THE WITNESS:  Yes, ma'am.

15           BY MR. RAPPOLT:

16           **Q       Mr. Hevert, do you recognize this as your work**  
17           **papers for Chart No. 5?**

18           A       I'm sorry.  Just one second.

19                   Yes, I do.  Thank you.

20           **Q       Okay.  And the far-right column provides the**  
21           **interest rates for the 30-year U.S. treasury bonds,**  
22           **correct?**

23           A       Right.

24                   MR. RAPPOLT:  Okay.  If I could have marked as  
25           the next exhibit, Exhibit P- -- excuse me --



1 excerpt from FPL Witness Hevert's direct testimony  
2 before the Missouri Public Service Commission.

3 CHAIRMAN BROWN: We will mark that as  
4 Exhibit 686.

5 (Whereupon, Exhibit No. 686 was marked for  
6 identification.)

7 BY MR. RAPPOLT:

8 **Q And if you could, turn to Page 41 of the**  
9 **testimony.**

10 CHAIRMAN BROWN: I will note that Exhibit 672  
11 is already in the record. And that is the full and  
12 complete case from 2014 of Missouri.

13 MR. RAPPOLT: Okay. Thank you, Madam Chair.

14 CHAIRMAN BROWN: Uh-huh.

15 THE WITNESS: Thank you.

16 I'm sorry, Mr. Rappolt. What page did you ask  
17 for?

18 BY MR. RAPPOLT:

19 **Q Page 41.**

20 A Yes, I'm there.

21 **Q Okay. And -- sorry. On the first whole**  
22 **Page 41, the first page, the testimony was provided on**  
23 **February of 2014, correct?**

24 A February 6th, 2014, that's right.

25 **Q Okay. And Page 41, you stated that you**

1 **believe that there is an indication that interest rates**  
2 **would increase in both the near and long term, correct?**

3 MR. LITCHFIELD: I'll object to the form of  
4 the question. That's not an accurate  
5 representation of the plain language I'm reading  
6 here.

7 MR. RAPPOLT: We'll let the document -- it  
8 says what it says.

9 CHAIRMAN BROWN: Would you like to rephrase  
10 the question?

11 MR. RAPPOLT: Sure.

12 BY MR. RAPPOLT:

13 **Q Could you just read Lines 4 and 5?**

14 A Lines 4 and 5 read: The recent rise in  
15 interest rates is consistent with analysts' projections,  
16 which indicate further increase in both the near and  
17 long term.

18 And then it goes on to read, Chart 4 -- never  
19 mind. I'm sorry. You only asked for the first  
20 sentence. I apologize.

21 **Q Thank you, Mr. Hevert.**

22 And if we turn to Page 86 of Exhibit N --  
23 sorry, Exhibit 685 -- it's getting late.

24 CHAIRMAN BROWN: I know.

25 The work papers?

1 MR. RAPPOLT: Yes.

2 CHAIRMAN BROWN: Okay.

3 THE WITNESS: Page 86?

4 MR. RAPPOLT: 86.

5 CHAIRMAN BROWN: And sir, you're doing a great  
6 job on expediency. So, I appreciate that, too.

7 MR. RAPPOLT: We're almost done as well.

8 CHAIRMAN BROWN: Very efficient.

9 BY MR. RAPPOLT:

10 Q Okay. Page 86, the first half of the page, we  
11 see the 30-year treasury yields for the end of 2013 to  
12 the beginning of 2014, correct?

13 A Yes, that's correct.

14 Q Okay. And they range from about 3.7 to  
15 3.9 percent, correct?

16 A That's right.

17 Q All right. If we flip to Page 92 and 93, we  
18 see that the yields didn't increase, correct?

19 A That's right, but I would like to go back.  
20 Again, I don't mean to --

21 CHAIRMAN BROWN: Please speak into the mic.

22 THE WITNESS: Oh, I'm so sorry.

23 I would like to go back, if I could --

24 CHAIRMAN BROWN: Yes, of course.

25 THE WITNESS: -- to the testimony that we were

1 just looking at with Chart 3. What's important to  
2 recognize about Chart 3 is that these are forward  
3 yields. This is not my projection. This is not  
4 economists' projections.

5 This is what the market told us it expected  
6 the 27-year treasury yield to be at that time going  
7 forward. So, this is what the market expected. It  
8 wasn't my projection. Wasn't economists'  
9 projections. It's actually expectations based on  
10 the yield curve at the time.

11 BY MR. RAPPOLT:

12 **Q Okay. But the -- the market, according to**  
13 **you, was wrong, right?**

14 A Well, you know, that's an interesting  
15 question. The market is the market. And the market  
16 decides what it believes interest rates are going to be.  
17 Whether it's right or whether it's wrong, in hindsight,  
18 is not the -- the issue here. If the question is, did  
19 the market suggest that interest rates are going up and  
20 they went down -- sure, that's the case.

21 But when we look at the cost of equity, when  
22 we look at what investors require, we have to look at  
23 what the market expects; not whether the market turned  
24 out to be wrong or right, in hindsight.

25 MR. RAPPOLT: Madam Chair, if we could get the

1 next exhibit marked, it's an excerpt from FPL  
2 Witness Hevert's direct testimony before the PUC of  
3 Texas, Docket No. 3848.

4 CHAIRMAN BROWN: I believe that's the last  
5 exhibit in our stack. And that will be labeled as  
6 687.

7 (Whereupon, Exhibit No. 687 was marked for  
8 identification.)

9 MR. LITCHFIELD: Note that we don't have a  
10 full copy of this. And that's, frankly, been true  
11 with a number of these exhibits, despite the  
12 request last night.

13 MR. RAPPOLT: We are prepared to provide full  
14 copies, and we said we would and can provide  
15 them for you right now.

16 CHAIRMAN BROWN: And they're happening right  
17 now.

18 MR. LITCHFIELD: We thought we had made the  
19 request last night to have those provided to us in  
20 advance, not on an exceptions basis, but -- so, if  
21 we could make that clear tonight, that would be  
22 helpful.

23 CHAIRMAN BROWN: I'll be sure to do that --  
24 that -- again --

25 MR. RAPPOLT: Sorry. I was not here last

1 night, and I did not know that.

2 CHAIRMAN BROWN: That's okay.

3 MR. RAPPOLT: Could I have a clarification  
4 about that?

5 CHAIRMAN BROWN: FPL has requested that, in  
6 advance of providing -- or cross-examining  
7 witnesses on excerpts -- they would like full  
8 copies in advance.

9 MR. RAPPOLT: Will the copies be provided to  
10 the witness?

11 CHAIRMAN BROWN: Mr. Litchfield?

12 MR. LITCHFIELD: I'm sorry. I just turned for  
13 a moment.

14 Counsel, could you repeat that?

15 MR. RAPPOLT: Will the full copies be provided  
16 to the witness before he testifies -- or she?

17 MR. LITCHFIELD: Yes. Yes, in addition.

18 CHAIRMAN BROWN: Before they testify, no.

19 MR. LITCHFIELD: Before they testify?

20 CHAIRMAN BROWN: No. The answer is no.

21 MR. LITCHFIELD: I apologize. I've lost trail  
22 here.

23 CHAIRMAN BROWN: The answer is no.

24 BY MR. RAPPOLT:

25 Q Was Mr. -- Mr. Hevert, were you provided full

1     **copies of the OPC's full copies of the testimony before**  
2     **you testified?**

3           A     No.

4           Q     **Okay.**

5                   MR. LITCHFIELD: I misunderstood the request.  
6           I apologize. He answered correctly.

7                   CHAIRMAN BROWN: It's late.

8     BY MR. RAPPOLT:

9           Q     **Okay. Exhibit 687, this testimony provided --**  
10    **was provided in August of 2010, correct?**

11          A     Yes, that's right.

12          Q     **Okay. If you could, turn to Page 13.**

13          A     Yes, I'm there.

14          Q     **I apologize. I am on the wrong page. Here we**  
15    **go. And read Line 6 and 7, the full sentence there.**

16          A     In fact, Blue Chip Financial Forecasts  
17    projects the 30-year treasury yields of 5.7 percent in  
18    2013, while the 30-day average long-term treasury yield,  
19    parenthetically, i.e., the yield on 30-year treasury  
20    securities, closed paren, was approximately 4 percent as  
21    of August 13th, 2010.

22          Q     **Okay. Would it surprise you to find out that**  
23    **that increase did not occur?**

24          A     Well, I think we've all talked about that here  
25    today, but I think we've also talked about whether or

1 not, in hindsight, or it did or didn't is not relative  
2 to looking at what the market expects right now going  
3 forward.

4 **Q Mr. Hevert, to your recollection, in the last**  
5 **seven years, have you ever suggested that interest rates**  
6 **would increase?**

7 A Have I ever suggested that they would  
8 increase? I think what I typically do is to say -- I  
9 look at market data. I look at what economists are  
10 projecting. And I look at what the market is telling  
11 us. And that's what I rely on.

12 **Q And in any of those cases, did you provide**  
13 **testimony where you believed interest rates would not**  
14 **increase?**

15 A I --

16 MR. LITCHFIELD: I object to the character- --  
17 the form of the question. I think the witness has  
18 repeatedly said that he relies upon market  
19 projections of interest rates. And in two or three  
20 questions, Counsel continues to try to ask the  
21 witness whether he is projecting interest rates are  
22 increasing.

23 MR. RAPPOLT: Madam Chair, it's his testimony.  
24 He's relying on the forecasts of what he thinks are  
25 market indications. It's his testimony. It's his



1 opinion. He's relying on that.

2 CHAIRMAN BROWN: Objection overruled.

3 THE WITNESS: So, what was your question?

4 BY MR. RAPPOLT:

5 Q Over the last seven years, have you ever  
6 presented testimony where you suggested that interest  
7 rates would not increase?

8 A If market data suggested that interest rates  
9 would not increase, if consensus projections said they  
10 would not increase, if relative value of Puts and Calls  
11 on bond funds suggested they would not increase, then I  
12 would probably come to that conclusion.

13 But again, my data --

14 MR. RAPPOLT: Could --

15 A My data --

16 MR. RAPPOLT: I have the answer to my  
17 question, Madam Chair?

18 CHAIRMAN BROWN: I've allowed the witness to  
19 explain.

20 MR. RAPPOLT: He's -- first, he needs to  
21 answer the question yes or no, though, right?

22 THE WITNESS: I don't know the answer to that.

23 MR. RAPPOLT: Okay.

24 CHAIRMAN BROWN: And there is your answer.

25 MR. RAPPOLT: That's all I have.

1 Thank you, Madam Chair.

2 Thank you, Mr. Hevert.

3 CHAIRMAN BROWN: Thank you.

4 THE WITNESS: Thank you, sir.

5 CHAIRMAN BROWN: All right.

6 MR. SAYLER: Madam Chair, you had two  
7 questions about were some of South Florida  
8 Hospital's exhibits the same as our exhibits and --

9 CHAIRMAN BROWN: Let's -- let's do that at the  
10 end, if you don't mind.

11 MR. SAYLER: Okay.

12 CHAIRMAN BROWN: At this point, I believe that  
13 staff has a few questions and some exhibits to hand  
14 out as well.

15 MS. BROWNLESS: I believe we've already  
16 handed our exhibits out. Oh, no, they have it.

17 CHAIRMAN BROWN: Ms. Brownless, can you --

18 MS. BROWNLESS: Thank you, ma'am.

19 CHAIRMAN BROWN: Thanks.

20 MS. BROWNLESS: Okay. And I apologize. Since  
21 we had already been handed them, I thought you had  
22 as well.

23 CHAIRMAN BROWN: Would you like --

24 Ms. Brownless, would you like these marked at this  
25 time or as we go?

1 MS. BROWNLESS: If we could mark them as we go  
2 along, that would be helpful.

3 CHAIRMAN BROWN: Okay. We'll be starting at  
4 688.

5 MS. BROWNLESS: Thank you, ma'am.  
6 (Discussion off the record.)

7 CHAIRMAN BROWN: Ms. Brownless, you may  
8 proceed when you're ready.

9 MS. BROWNLESS: Thank you, ma'am.

10 EXAMINATION

11 BY MS. BROWNLESS:

12 Q Good afternoon, Mr. Hevert -- or good evening.

13 A It's one of those.

14 Q One of those things, yes, sir.

15 Can you please turn to Page 64 in your  
16 testimony.

17 A Yes, I'm there.

18 Q Here, you discuss the increase in credit  
19 spreads and conclude that, since credit risks have  
20 increased, investors' risk aversion has increased and,  
21 consequently, the cost of equity has increased. Is that  
22 a fair characterization of your testimony?

23 A Yes. I think the -- if we look at Lines 12  
24 and 14 -- I'm sorry -- 12 and 14, we -- we say, to the  
25 extent that credit spreads have increased, it is an

1 observable measure of capital markets' risk aversion.

2 MS. BROWNLESS: Thank you.

3 And can you refer to FPL's responses to  
4 staff's 36 set of interrogatories, No. 424, which  
5 we would request be marked as Exhibit 688.

6 CHAIRMAN BROWN: We will mark that exhibit,  
7 FPL's responses to staff's 36 set of  
8 interrogatories, No. 424, as Exhibit No. 688.

9 (Whereupon, Exhibit No. 688 was marked for  
10 identification.)

11 CHAIRMAN BROWN: Mr. Hevert, you have a copy  
12 of it right in front of you.

13 THE WITNESS: Yes, ma'am, I do.

14 CHAIRMAN BROWN: Okay.

15 BY MS. BROWNLESS:

16 Q And if you can, turn to the -- the third piece  
17 of paper that's got a chart.

18 A Yes, I have that.

19 Q Okay. And if you look at the chart there, on  
20 January 2016, the credit spread was approximately 120  
21 basis points; is that correct?

22 A Yes, that's right.

23 Q And on or about June 2016, the credit spread  
24 was about 70 basis points; is that correct?

25 A About that, yes, I'd -- I'd say so.

1           **Q**     **Okay. Would you agree that, over the period**  
2     **January 2016 through June 2016, the credit spreads you**  
3     **presented in your testimony have decreased?**

4           A     Over that period, yes, I -- I would agree with  
5     that. I would say that the end point, though, still is  
6     relatively high on a historical basis.

7           **Q**     **Thank you.**

8                     Would you agree that, since credit spreads  
9     have decreased, the inverse to your statement is true;  
10    that investors' risk aversion has decreased, and that  
11    leads to a decreased cost of equity?

12          A     I think there are -- there are two points to  
13    be made with that; one is, first, I do agree that the  
14    credit spreads decreased from January through whatever  
15    that time period was -- the end of June, I suppose.

16          **Q**     **Yes, sir.**

17          A     But the broader level of credit spreads have  
18    stayed the same. When you say it has fallen, perhaps,  
19    it has fallen from that relatively high period, but it  
20    still is elevated relative to the historical period.  
21    That's one piece of information.

22                     And I think the other piece of information has  
23    to do with the volatility of the spreads. The risk  
24    is -- is typically measured by volatility, variability.  
25    And what we can see is the -- the volatility of spreads

1 still had been relatively high, even moving into the  
2 latter part of the time period that we're looking at.

3 So, I agree with you, the credit spreads have  
4 fallen, but I don't know that we can conclude from that  
5 that the cost of equity has fallen substantially.

6 **Q All right.**

7 A And -- and excuse me. I'm so sorry. But the  
8 last piece is they -- if you look at where they were in  
9 January, over that entire historical period, they were  
10 at their peak. And they -- again, they still remain  
11 relatively high.

12 **Q I would like to discuss in more detail your**  
13 **use of the CAPM methodology. Could you please turn to**  
14 **Page 19 --**

15 A Yes, I'm there.

16 **Q -- of your direct testimony.**

17 A Yes, ma'am, I'm there.

18 **Q And the -- I'd like you to look at the CAPM**  
19 **equation that's on Line 8.**

20 A Yes, I see that.

21 **Q Is this the classic form of the model, and is**  
22 **it widely accepted by the academic and financial**  
23 **community?**

24 A I think the answer to both is yes.

25 **Q Would you agree that, in the theoretical**

1 application of the CAPM, the risk-free rate, which is  
2 "R" sub "F" in this equation, to calculate the risk  
3 premium should be the same as the risk-free investment?

4 A It should be the same type of security. It  
5 should be a long-term treasury security. But the  
6 question as to whether the -- that parenthetical phrase,  
7 which is the market-risk premium, should be based on the  
8 same exact number, I think, is something that is not  
9 settled.

10 Q Okay. You don't believe that it's settled in  
11 the academic community?

12 A Or in practice, for that matter. And my focus  
13 typically is in practice. For example, we were talking  
14 a little bit earlier today about people who might use  
15 the market-risk premium calculated on a historical  
16 basis. And during that period, the risk-free rate was  
17 about 5.2 percent.

18 Now, if they were to be consistent, they would  
19 include that same 5.2 percent as the first term here.

20 Q Yes, ma'am -- yes, sir. Yes.

21 (Laughter.)

22 A But that often is not the case, which is --  
23 which is why I say that, in practice, quite often there  
24 is a difference between the two.

25 Q And I guess what I'm trying to understand is

1    **the traditional accepted CAPM calculation does use the**  
2    **same risk-free rate of return. While the practical may**  
3    **not, the theoretical does.**

4           A     That -- that may, but I'll also say that,  
5    quite often, what you'll see in academic papers is that  
6    risk-free rate being the 30-day treasury bill rate. No  
7    one here uses it for that purpose.

8                    So, the distinction between academic use and  
9    practical use sometimes can be fairly substantial.

10           **Q     Thank you.**

11                    And the beta that's used here is a measurement  
12    of the risk of the stock in proportion to the overall  
13    required market return less the risk-free rate; is that  
14    correct?

15           A     I'm not sure I agree with that -- that last  
16    part. The beta coefficient is a measure of the -- the  
17    extent to which a return for security varies relative to  
18    the return on the market.

19           **Q     Oh, I'm sorry. May I back up and start again,**  
20    **please?**

21           A     Okay. As long as you don't call me "ma'am."  
22                    (Laughter.)

23           **Q     Yes, sir.**

24                    Would you agree that, in the traditional  
25    application of the CAPM equation, the only variable that



1 changes is the beta?

2 A I -- I'm -- I'm not sure I -- I would agree  
3 with that.

4 **Q Why not?**

5 A Because when -- I think what you're saying --  
6 and perhaps I'm misinterpreting -- but I think what  
7 you're saying is that if we were to apply this model  
8 based on historical data, that's the only way it  
9 wouldn't -- would not -- the variables would not change.

10 Then the -- the market-risk premium would be  
11 the market return less the risk-free rate. That risk-  
12 free rate would be the same term on both sides -- excuse  
13 me -- in both of those terms on the right-hand side of  
14 the equation, but -- but again, I think, in practice, I  
15 don't -- I don't see people do that.

16 So, for example, if someone was to use the  
17 historical market-risk premium of 7 percent, they would  
18 have to use a risk-free rate of 5.2 percent or 5.5  
19 percent, whichever it is, but we don't see people doing  
20 that.

21 **Q And I want to make sure that I understand, if**  
22 **I look at Exhibit RBH-2 of your direct testimony --**

23 A Yes, I'm there.

24 **Q -- and I want to understand the actual numbers**  
25 **that go into the calculation of Column 6 CAPM results;**

1 proxy group, Bloomberg, beta, coefficient, 30-year --  
2 current 30-year treasury, 30-day average. Do you see  
3 that, the 9.45 percent?

4 A I do.

5 Q Okay. And you got to that number by taking a  
6 risk-free rate of return of 2.96 percent.

7 A That's right.

8 Q And then you added that to the difference  
9 between 13.63 percent minus 2.96 percent. You  
10 multiplied that by .608 percent. And that's how you got  
11 the 9.45 percent, correct?

12 A That's right.

13 Q Now, I want to, let's see, go to the second  
14 group there.

15 A Okay.

16 Q That 10.61 percent. And that's on the first  
17 line. Okay?

18 A Yes, I see that.

19 Q The second group.

20 And in order to calculate that, you took a  
21 risk-free rate of 2.96 percent. You took a risk  
22 premium -- you calculated the risk premium by taking  
23 12.82 percent minus 2.96 percent. You multiplied it by  
24 the beta of 0.776, and you got the 10.61; is that right?

25 A That's correct.

1 Q Okay. So, in both your calculations of the  
2 9.45 percent, which is the Bloomberg market DCF-derived,  
3 and your calculations of the 10.61 percent, which is the  
4 Value Line market DCF-derived, the risk-free rate that  
5 you used in both instances was the same.

6 A That is correct.

7 Q Okay. If you can, look at the exhibit that I  
8 gave you that says "CAPM application and theory per new  
9 regulatory finance by Roger A. Morin, Ph.D."

10 A Yes, I have that.

11 MS. BROWNLESS: Okay. We would like that  
12 marked the next number, which, I think, is 689.

13 CHAIRMAN BROWN: That is correct. We will  
14 mark that as 689.

15 MS. BROWNLESS: Okay.

16 (Whereupon, Exhibit No. 689 was marked for  
17 identification.)

18 BY MS. BROWNLESS:

19 Q Are you familiar with Dr. Morin's book  
20 entitled "new regulatory finance"?

21 A Yes, I am.

22 Q Would you agree that this is an  
23 authoritative -- excuse me -- an authoritative --  
24 authoritative academic text on regulatory finance?

25 A Well, I think I would call it more of a

1 practitioner's text, but I would say it's widely --  
2 widely referenced.

3 Q Okay. Can you turn to Page 159 of that  
4 exhibit, please.

5 A Yes, I'm there.

6 Q Okay. And can you please read the paragraph  
7 that starts "prospective market-risk premium."

8 A Yes: A second approach to estimate the MRP is  
9 prospective in nature and consists of applying the DCF  
10 model to a representative market index, such as the S&P  
11 500 and -- excuse me -- such as Standard & Poor's 500  
12 index, Value Line composite, or New York Stock Exchange  
13 index. For reasons of consistency, the market index  
14 employed should be the same as the market index used in  
15 deriving estimates of beta.

16 Q Thank you. That's -- that's good enough.

17 A Thank you.

18 Q In your CAPM derivations, you applied the DCF  
19 model using the Standard & Poor's 500 index to calculate  
20 the market return; is that right?

21 A Yes, that's right.

22 Q Okay. And in your CAPM calculations, you used  
23 two different sources to derive two market returns of  
24 the S and M -- of the S&P 500, correct?

25 A Yes, that's correct.

1           **Q     And those sources were Value Line and**  
2 **Bloomberg; am I right?**

3           A     That's right.

4           **Q     You also used measures of beta from Value Line**  
5 **and Bloomberg in your CAPM calculations, correct?**

6           A     Yes, I did.

7           **Q     Do you agree that, for consistency, the same**  
8 **source should be used to derive the market return and**  
9 **the beta; for example, use a beta Bloomberg with a**  
10 **Bloomberg -- Bloomberg S&P 500 market return, and use a**  
11 **Value Line beta with a Value Line S&P 500 market return?**

12          A     I -- I think there -- there could be, but I  
13 don't know how significant it is. What we're trying to  
14 do is estimate the expected return on the market as a  
15 whole. And when I look at this type of analysis, I  
16 think most people recognize the Standard & Poor's 500 as  
17 a measure of the market. So, that's -- that's the  
18 method that we've been using. That's the approach we've  
19 been using.

20                   I recognize Dr. Morin's view on that. I just  
21 don't know how much of a difference it would make, if  
22 any.

23           **Q     Okay. Can you look at your Exhibit RBH-2**  
24 **again, please.**

25           A     Yes, I'm there.

1 Q Okay. And if you look at the second group,  
2 which is the proxy group Value Line average beta  
3 coefficient group --

4 A Yes.

5 Q Okay. Using the Value Line beta, in the last  
6 row, where you use the Blue Chip 2020 projection,  
7 projected risk-free rate of 4.8 percent -- the results  
8 for that CAPM calculation are 13.09 percent, is that  
9 correct, as shown in Column 5?

10 A So, just -- I just want to be sure I heard you  
11 correctly. So, the 13.09 percent is based on the  
12 Bloomberg-derived market return, correct?

13 Q Yes.

14 A Yes, that's right.

15 Q And this is the highest result of the 12  
16 iterations of the CAPM in your analysis; is that right?

17 A Yes, it is.

18 Q And for that CAPM calculation, you used the  
19 highest risk-free rate of 4.8 percent, the highest beta  
20 coefficient of point -- 0.77 -- and I think that's a  
21 six --

22 A It is a six.

23 Q -- but it's pretty late -- and the highest  
24 risk premium of 10.68 -- I'm sorry -- 10.68 percent; is  
25 that correct?

1           A       Well, when you say I use them -- that was the  
2 combination of variables that produced that. So, if  
3 that's your question, then, yes --

4           **Q       Yes.**

5           A       -- that's a combination of variables.

6           **Q       That's what you plugged into the formula.**

7           A       Okay.

8           **Q       Okay. And the Value Line of 0.776 -- I'm**  
9 **sorry -- the beta coefficient of 0.776 was from Value**  
10 **Line; is that right?**

11          A       Yes, that's correct.

12          **Q       The risk premium was derived using a DCF model**  
13 **with Bloomberg dividend yield and growth estimates,**  
14 **correct?**

15          A       For the 13.09-percent number?

16          **Q       Yes.**

17          A       Yes, that's correct.

18          **Q       Mr. Hevert, is it -- is it a fair**  
19 **characterization of your CAPM analysis that you mixed**  
20 **and matched two different values of beta and two**  
21 **different risk-premium estimates in your CAPM**  
22 **calculations to arrive at a range of results?**

23          A       I don't think I would characterize it that  
24 way, no. What I've done is to look at sources of data  
25 that are frequently used and highly available to

1 investors.

2 As said in my opening statement, all of these  
3 models produce a range of results. And we have to take  
4 into account the fact that the models have different  
5 assumptions, and they produce that range of results.

6 That's the intent of the type of analysis that  
7 I'm doing here. I look at various variables, various  
8 parameters in these models and try to understand how  
9 investors likely would look at them. And I produce the  
10 range of results based on that.

11 I wouldn't call it mixing and matching. I  
12 would call it putting together an analysis that, in my  
13 view, reasonably represents the views of investors.

14 **Q All right. Let's look at the risk-free rate**  
15 **in Column No. 1.**

16 A Okay.

17 **Q The risk-free rate of 4 percent is based on**  
18 **Blue Chip Financial Forecasts for the 30-year treasury**  
19 **rate in 2017; is that correct?**

20 A Correct, as of 2017. So, it would be 30 years  
21 looking forward, as of 2017.

22 **Q And looking in that same Column 1, the risk-**  
23 **free rate of 4.8 percent is based on Blue Chip Financial**  
24 **Forecasts for the 30-year treasury rate in 2020; is that**  
25 **correct?**



1 A Yes, that's correct.

2 Q Now, I think you have a copy of the direct  
3 testimony of Mr. Woolridge there.

4 A Do I?

5 Q Yes, sir. And I think the Chair and all  
6 the -- everybody does as well.

7 A Oh, there we go.

8 CHAIRMAN BROWN: Would you like that marked?

9 MS. BROWNLESS: Sure.

10 CHAIRMAN BROWN: Let's mark that as  
11 Exhibit 690.

12 MS. BROWNLESS: Thank you, Madam Chair.

13 CHAIRMAN BROWN: And we'll title it "direct  
14 testimony of Woolridge." That's what we'll title  
15 it. Okay?

16 MS. BROWNLESS: Okay.

17 (Whereupon, Exhibit No. 690 was marked for  
18 identification.)

19 BY MS. BROWNLESS:

20 Q Now, can you please look at Pages 16 through  
21 18 of Mr. Woolridge's -- Dr. Woolridge's testimony.

22 A Yes, I'm there.

23 Q Have you had a chance to look at those?

24 A Yes -- I'm sorry, ma'am. Yes, I have.

25 Q Do you agree with Dr. Woolridge that forecasts

1 **for long-term interest rates have been wrong?**

2 A I agree that the -- on an ex-post-basis,  
3 looking backwards, that the actual interest -- interest  
4 rates were not the same as the projected interest rates,  
5 but as I've said, that's interesting, but it's not  
6 really relevant to our analyses. We're looking at the  
7 cost of equity going forward. And that's why I look at  
8 multiple measures of market expectations; not just  
9 economists' view.

10 But as to the question of whether forecasts  
11 were wrong -- sure, forecasts are wrong. The Social  
12 Security Administration's forecasts were wrong. So,  
13 that's what happens.

14 But what we have to think about is what is the  
15 market looking at at any given point in time.

16 Q Are you -- let's see. Can you look at the  
17 next exhibit, which is the U.S. Department of Treasury  
18 historical 30-year treasury rates. And I think that  
19 would be 691.

20 CHAIRMAN BROWN: That's correct. We will mark  
21 that as 691.

22 (Whereupon, Exhibit No. 691 was marked for  
23 identification.)

24 CHAIRMAN BROWN: Mr. Hevert, you've got a copy  
25 of that?

1 THE WITNESS: Yes, ma'am, I do.

2 CHAIRMAN BROWN: Okay.

3 BY MS. BROWNLESS:

4 Q And are you familiar with the treasury-rate  
5 information provided by the U.S. Department of the  
6 Treasury?

7 A Yes, I am.

8 Q And looking at this chart, would you agree  
9 that, during the past five years, the 30-year treasury  
10 rate has been below 4 percent?

11 A Oh, yes, I would agree with that.

12 Q Would you agree that, since 2014, the 30-year  
13 treasury rate has declined to below 2.5 percent?

14 A Yes. It's interesting, you can see toward the  
15 right side of that chart the sudden drop. I'm assuming  
16 that was late June of this year after the United Kingdom  
17 voted to leave the European Union. And we saw the  
18 significant fall-off at that point. But yes, I think  
19 that's right.

20 One thing that this chart does not show is  
21 one -- something we talked about a little bit earlier,  
22 which is what these prices, what these yields, compared  
23 to, say, the ten-year yields, are telling us the market  
24 thinks will happen in the future about interest rates.  
25 The forward yields would still suggest increasing

1 interest rates.

2 But as to your question, have they fallen?

3 Sure. They've fallen.

4 **Q Would you agree that the upper range of your**  
5 **CAPM results is due to the inclusion of forecasted**  
6 **interest rates in the CAPM calculation?**

7 A I would agree with that, but I -- I would also  
8 say that it's above my recommended range.

9 MS. BROWNLESS: We're trying to speed along,  
10 here, Madam Chair.

11 CHAIRMAN BROWN: That's okay. You're doing a  
12 good job.

13 BY MS. BROWNLESS:

14 **Q And can you refer to the last exhibit we gave,**  
15 **which is selected pages from your direct testimony in**  
16 **the Tampa Electric rate case, 130040. And that would be**  
17 **692.**

18 A Yes, I have that.

19 MS. BROWNLESS: We would ask that it be marked  
20 as 692.

21 CHAIRMAN BROWN: Okay. We will mark that as  
22 692.

23 (Whereupon, Exhibit No. 692 was marked for  
24 identification.)

25 ///

1 BY MS. BROWNLESS:

2 Q And can you look at Page 19, Line 14.

3 A Yes, I see that.

4 Q And on those lines, did you state: I have  
5 relied primarily on the constant-growth DCF model?

6 A I -- I did, yes.

7 Q Are you relying on the results of your  
8 constant-growth DCF model primarily in this case?

9 A For all of the reasons we've talked about this  
10 afternoon and evening, no. I -- I give the risk-premium  
11 models more weight.

12 Q Thank you.

13 Can you turn to Page 55 of your direct  
14 testimony.

15 A Yes, I'm there.

16 Q And I want to make sure I understand what  
17 you're telling me here. Are you stating that the stock  
18 prices for the electric utility companies in your proxy  
19 group are higher than their historical average due to  
20 the Federal Reserve's quantitative easing policy?

21 A What -- what I'm seeing here is that the  
22 utility sector has -- had been valued at historically-  
23 high levels, not only relative to itself, but also  
24 relative to the market. And I don't think it's any  
25 secret that people look at dividend-paying stocks when

1 interest rates are low as a source of yield.

2 The consequence of federal policy has been to  
3 reduce long-term interest rates. That was the intended  
4 outcome. When that happens, people, as they say, reach  
5 for yield. When they reach for yield, the prices go up.

6 But we saw in early 2015, when that happens,  
7 the change happens quickly. We saw the sector lose  
8 approximately 13 percent of its value in a short period  
9 of time after interest rates went up.

10 The whole point here simply is that the  
11 constant-growth model assumes that that PE ratio will  
12 stay constant in perpetuity. But if we know that the  
13 market -- excuse me -- the sector is trading at a very  
14 high level, and if we know that that high level is, in  
15 any manner, associated with federal policy, and we know  
16 federal policy is going to change, and we know that a  
17 year ago, when it was trading at familiar -- excuse  
18 me -- similarly high levels, and it fell very quickly,  
19 we cannot, I don't think, reasonably conclude that the  
20 PE ratio will stay constant, as the constant-growth  
21 model requires.

22 **Q Okay. And the higher stock prices reduce the**  
23 **results of the constant-growth DCF model used in your**  
24 **analysis. I believe that's what you've just explained.**

25 **A Well, that's an interesting question -- and I**

1 won't belabor this point, but the -- the constant-growth  
2 model, just based on its assumptions -- what should  
3 happen is, when prices go up, prices go up because  
4 people expect growth to be higher. You pay more because  
5 you expect growth to be high. So, in the normal  
6 operations of the model, based on its normal  
7 assumptions, you would see the price go up and you would  
8 see the growth rates go up as well.

9 That's not what we saw here. We saw the price  
10 go up and the dividend yield go down because of what, I  
11 believe, was known as the reach for yield, which is  
12 almost always a temporary and transient phenomenon.

13 **Q Okay. Are stock prices a financial-market**  
14 **base component of the constant-growth DCF model?**

15 **A** Yes, they are.

16 **Q And the purpose of your constant-growth DCF**  
17 **analysis is to determine what an investor's required**  
18 **rate of return on an investment in the financial**  
19 **marketplace that has a similar risk to that of FP&L?**

20 **A** It would be -- I generally agree. It's what  
21 is the return required on an equity investment that's  
22 comparable to FP&L, yes.

23 **Q Can you turn, again, to your testimony in the**  
24 **TECO case and look at Page 34.**

25 **A** Yes, I'm there.

1 Q And I'm just going to begin on Line 22. And  
2 there, you stated that you did not believe the CAPM  
3 results provide a reasonable range of ROE estimates; is  
4 that correct?

5 A That's right. And -- and if we go on --

6 Q And --

7 A I'm sorry --

8 Q May I continue? Thank you.

9 And that was because the low results were  
10 approximately a hundred basis points below the lowest  
11 ROE ever authorized for an electric utility in at least  
12 30 years; is that correct?

13 A That was one reason, correct.

14 Q And it was your testimony back in mid-2013  
15 that the effect of the Federal Reserve intervention, the  
16 quantitative easing we discussed, was to maintain long-  
17 term treasury yields at historically-low levels; is that  
18 right?

19 A Yes, that's right, which is consistent with  
20 what I had just said, yes.

21 Q Yes, sir.

22 And the 30-year treasury yield was  
23 3.12 percent at the time of your testimony in 2013. Was  
24 that right? I think that's on Page 35, Line 15.

25 A Well, there you go. Yes, that's right.



1 Q And you concluded in the Tampa Electric case  
2 that, since the CAPM defines the cost of equity in terms  
3 of treasury yields, the effect of the Federal Reserve's  
4 action was to decrease rather substantially the CAPM  
5 results; is that right?

6 A That's right. That would -- again, that was  
7 one reason.

8 Q Yes, sir.

9 A And the following paragraph is another reason.

10 Q On Line 23, you stated that you did not  
11 believe that the CAPM results fully reflected the  
12 appropriate range of ROE estimates; is that right?

13 A That's -- that's correct. And I do think you  
14 need to read -- we need to read Lines 17 through 22 as  
15 well to put that in context.

16 Q Okay. And if I turn to Page 26 of your direct  
17 testimony, and look at Table No. 3 --

18 A Yes, I'm there.

19 Q You list the current 30-year treasury at --  
20 that you list there, the current 30-year treasury -- you  
21 are referring to the 30-year treasury yield; is that  
22 correct?

23 A Yes, that's correct.

24 Q And that value was 2.96 percent?

25 A Correct.

1           Q     Would you agree that the 30-year treasury  
2 yield is lower now than when you filed your testimony in  
3 the Tampa Electric rate case?

4           A     It's lower now? Oh, yes, I agree with that.

5           Q     Is it fair to say that, in the Tampa Electric  
6 rate case, you testified that the CAPM results were not  
7 representative of the appropriate ROE because of the low  
8 30-year treasury yields?

9           A     Because in part of the low treasury yields,  
10 that's right.

11          Q     But in this case, you believe that the CAPM  
12 results now reflect the appropriate range of ROE  
13 estimates.

14          A     I think it's a reasonable measure of the ROE  
15 estimates in this case. That's right. And again, I  
16 think, if we look at the entirety of the approach taken  
17 in Tampa Electric compared to the approach we take here,  
18 that explains much of -- much of that difference. But  
19 yes, I agree with -- I still think that's correct.

20          Q     Okay. Have you changed your methodology of  
21 applying the CAPM since your testimony in the Tampa  
22 Electric case?

23          A     We talked about that a little bit  
24 earlier this -- this afternoon. And going back to  
25 Page 35 of the Tampa Electric case, beginning on

1 Line 17, there was the sharp ratio approach.

2 Q Uh-huh.

3 A And for the reasons that we talked about,  
4 again, earlier today, the effect of federal policy  
5 dampening volatility, which would bring down a -- excuse  
6 me -- a meaningful measure of the market-risk premium, I  
7 just don't think that approach can be used.

8 It is directly affected by federal policy and,  
9 as a consequence, while it may have been useful in some  
10 point in time, I don't think it's useful at this point.

11 Q Okay. And I just want to see if I can briefly  
12 summarize the differences between your testimony in the  
13 Tampa Electric case and your testimony in this case.

14 A Okay.

15 Q In the Tampa Electric case, you primarily  
16 relied upon the results of the constant-growth DCF  
17 model, and you downplayed or disregarded the results of  
18 the CAPM analysis; is that correct?

19 A That's right -- well, I -- I don't --

20 Q Not disregarded, but gave less weight to.

21 A I think that's fair.

22 Q Okay. And in this case, you rely primarily on  
23 the CAPM results and have given less weight to the  
24 results of the constant-growth DCF model.

25 A That's right, and again, for the many reasons

1 we've talked about this afternoon.

2 **Q Okay. And I have one last question, which**  
3 **follows up on a question that Mr. Moyle had, regarding**  
4 **the difference between debt and equity. And I believe,**  
5 **when you were talking to him about that, you said that**  
6 **equity is measured or defined by a stream of dividends**  
7 **and the proceeds from the sale of stock; is that**  
8 **correct?**

9 A I am -- I'm not sure that's -- that's entirely  
10 correct. The nature of equity -- I think we were  
11 talking about residual risk at that time. But if you  
12 were to think about the return that comes to equity  
13 investors just by owning the stock, then it could be the  
14 yield plus growth, which is sort of the context of the  
15 constant-growth discounted cash-flow model. That's --  
16 that's one way of looking at it.

17 **Q What did you use as your definition of equity**  
18 **when you were speaking with Mr. Moyle?**

19 A Well, I -- I suppose I -- my definition of  
20 equity would be -- and I'm not trying to be smug by  
21 this. It's not debt. And so, you don't have the  
22 contractual protections that debt has -- you're the  
23 residual owner.

24 You are last in line -- which I think may have  
25 been the term that Mr. Moyle used. You're last in line

1 to get -- to have a claim on the cash flows of the  
2 company.

3 Q Okay. So, if you have debt, it's usually  
4 secured by some type of promissory or note or something  
5 where you'll be paid "X" amount of money at "X" percent?

6 A Right. So, debt -- debt is contractually  
7 defined.

8 Q Right.

9 A And it's finite.

10 Q And that gets paid first.

11 A And that gets paid first.

12 Q Okay. And equity is whatever is left. And  
13 equity is paid out to a regular investor in terms of a  
14 dividend on a stock, a return on --

15 A The --

16 Q -- the stock.

17 A Yes, the dividend is paid after --

18 Q After the debt.

19 A -- the debt -- the debt-holders are paid.

20 That's correct. And that's a portion of the return.

21 Q Okay. Would you agree that, in your  
22 explanation that we just went through of the term  
23 "return on equity," you -- you define the return on  
24 equity in terms of the DCF model, not the CAPM model?

25 A Sure. That's what I just said a minute ago.

1 I said, that's one way of looking at it. That's not the  
2 only way of looking at it, of course. And in this  
3 market, I think there are other more-relevant ways of  
4 looking at it.

5 MS. BROWNLESS: Thank you so much.

6 THE WITNESS: Thank you.

7 CHAIRMAN BROWN: Thank you.

8 Commissioners.

9 Seeing no questions, redirect.

10 MR. LITCHFIELD: Okay.

11 CHAIRMAN BROWN: Just get right into it.

12 MR. LITCHFIELD: I apologize. You caught me a  
13 little bit off guard here, but I do have a few  
14 redirect questions for him. And I'm going to start  
15 with this one.

16 REDIRECT EXAMINATION

17 BY MR. LITCHFIELD:

18 Q Mr. Hevert, you were asked at a couple of  
19 points to refer to the table in your direct testimony  
20 that laid out the range produced by your DCF model. Do  
21 you recall that discussion?

22 A I do.

23 Q And you recall being asked about where your  
24 recommendation fit relative to that particular table --  
25 those particular ranges. Do you recall those questions?

1           A     I do.

2           **Q     Yet, you're recommending 11 percent as the**  
3 **cost of equity for Florida Power & Light Company in this**  
4 **proceeding, correct?**

5           A     Within the range of 10.5 to 11.5, correct.

6           **Q     Thank you.**

7                     Now, how did you arrive at -- at 11 percent as  
8 the mid-point with the range you just described?

9           A     I think, for the many reasons we talked about  
10 here today, we have to look at methods beyond the  
11 discounted cash-flow methods. And I gave weight to  
12 risk-premium-based methods.

13                     I did not go to the top of the range of those  
14 methods, but I think that it's important to recognize  
15 that discounted cash-flow-based models have assumptions  
16 that, right now, simply do not line up, they do not  
17 comport with the market.

18                     And so, my approach, as I've said here today,  
19 is to give more weight to the risk-premium-based  
20 methods.

21           **Q     Thank you.**

22                     Do you have -- still have Exhibit 673,  
23 supplied to you by Mr. Saylor of the Office of Public  
24 Counsel?

25                     CHAIRMAN BROWN: It's the forward 2000 --

1 forward 2016 Hevert testimonies.

2 THE WITNESS: Okay. I'm not very good at  
3 keeping track of these things.

4 BY MR. LITCHFIELD:

5 Q Well, it may actually not be important that  
6 you have it in front of you for purposes of my question.

7 A Okay.

8 Q If -- if you need it, we can pause for a  
9 minute. But let me ask you this: With respect to  
10 the -- a particular recommended range of cost of equity  
11 with respect to a particular company, whether it's any  
12 of the companies reflected in that Composite Exhibit 673  
13 or, frankly, any other company represented by any of the  
14 other pieces of testimony that Mr. Saylor took you  
15 through, or that we otherwise entered into the record  
16 through stipulation -- my question is: What is the  
17 relevance of those recommended ranges with respect to  
18 FPL in this case across time?

19 A Across time, I think there is a very little  
20 relevance. As I said, markets change. And when markets  
21 change, the way you apply models and the way the models  
22 apply to the markets change.

23 I don't think it's proper to look at an  
24 approach someone took under an entirely different set of  
25 market circumstances and say that you ought to maintain



1 that approach even as markets fundamentally change.

2 So, I think looking at approaches across time  
3 and noting that the weight given to one approach may  
4 have changed really doesn't tell us anything other than  
5 the market changed over that period.

6 **Q I'll ask you the same question with respect to**  
7 **companies -- or I'll say across companies even within**  
8 **the same time frame.**

9 A The -- same thing. When you look across  
10 companies, each company has its own set of  
11 circumstances. And when I look at returns, it's based  
12 on the facts and circumstances of the subject company at  
13 the time. No two companies are identical and,  
14 therefore, it would be surprising if the cost of equity  
15 were identical.

16 **Q Same question with respect to the ranges as**  
17 **they relate to different jurisdictions, i.e., different**  
18 **commissions around the country.**

19 A Different commissions have different ways of  
20 looking at the cost of equity. We sometimes give weight  
21 to methods that a given Commission will use. That  
22 doesn't mean that that's the same approach that's used  
23 all across the country.

24 So, again, I think, looking at one Commission,  
25 one approach, and suggesting that that ought to be the

1 approach taken across the country is -- it's not a very  
2 relevant observation.

3 Q You were asked by Mr. Sayler also to focus on  
4 a particular exhibit in which he referred you to the  
5 equity ratio of roughly 59 percent. Do you remember  
6 that question?

7 A I do.

8 Q And -- and as I recall, you qualified that  
9 based on investor sources. Is that consistent with --  
10 is that -- is that accurate?

11 A Yes, that's correct.

12 Q Can you describe for the Commission what that  
13 means?

14 A When I say investor sources, I mean investor-  
15 supplied sources, common equity, long-term debt, for  
16 example. It does not include other sources of  
17 capital; zero-cost sources of capital, such as deferred  
18 income tax or customer deposits, some of the other  
19 sources of capital used here in Florida in the capital  
20 structure.

21 My -- my recollection is that, when you take  
22 into account all of the sources of capital, investor-  
23 supplied and non-investor supplied, the equity ratio is  
24 about 45 percent.

25 Q And are rates in Florida set on the basis, in

1     **this discussion, on 45 percent or 59 percent?**

2           A     45 percent is my understanding.

3           **Q     Mr. Skop asked you several questions about the**  
4     **2009 rate case, surprisingly enough. And my only**  
5     **question with respect to that entire line is this: What**  
6     **impact do credit downgrades have on the cost of capital?**

7           A     A credit downgrade, especially for a utility,  
8     I think, is something that the financial markets look at  
9     fairly heavily. When I was in the business of raising  
10    capital, there was a saying that ratings take the  
11    escalator down and the stairs up. It's easy to lose a  
12    credit rating. And when it does, the markets look at  
13    that very quickly.

14           A utility downgrading is not all that common.  
15    And so, when it happens, people notice.

16           **Q     He also asked you about your use of Blue Chip**  
17     **source. Do you recall that?**

18           A     I do.

19           **Q     That was for what purpose, the Blue Chip?**

20           A     Blue Chip is --

21                   (Brief interruption.)

22           THE WITNESS: I'm sorry.

23           Blue Chip is a source of consensus estimates.

24           And I use that for the purpose of understanding  
25           expected interest rates.

1 BY MR. LITCHFIELD:

2 Q What do you mean by consensus?

3 A Consensus means that they survey economists --  
4 I believe they survey 50 economists. So, it's not the  
5 thought, it's not the projections of just one economist;  
6 it's a measure of central tendency of about 50.

7 Q Thank you.

8 Now, Mr. Wright asked you a few questions  
9 relative to NextEra Energy's stock price. Do you recall  
10 those questions?

11 A I do.

12 Q And I think it was established that Florida  
13 Power & Light Company, itself, does not have a stock  
14 price.

15 A That's right.

16 Q You -- you agree with that.

17 A I do.

18 Q Do you have any appreciation or sense for the  
19 percentage that FPL represents with respect to NextEra  
20 Energy as a whole?

21 A Well, as a whole, it's certainly not the whole  
22 of it. And there are other elements of -- of NextEra  
23 that contribute to the consolidated earnings. So, FP&L  
24 certainly does not contribute all of the consolidated  
25 company's earnings.

1           Q     So, what can you say or conclude with respect  
2 to the movement of NextEra Energy stock price as it  
3 relates to FPL?

4           A     That there are influences beyond FPL that  
5 affect the stock price.

6           Q     Mr. Moyle put in front of you two exhibits  
7 that I'll treat at the same time for purposes of  
8 redirect, 656 and 657. Do you have those in front of  
9 you?

10          A     Probably somewhere.

11          Q     These, as you may recall, were pulled from  
12 your rebuttal testimony. And Mr. Moyle drew a line on a  
13 page, I think, in each exhibit and then did some math,  
14 and walked you through some averages. Do you recall  
15 that line of questioning?

16          A     I do recall that line of questioning.

17          Q     At one point, I think he asked you whether  
18 these were important data. And you said yes, but not  
19 for the purpose you are using it for. Do you recall  
20 that?

21          A     Right. I do.

22          Q     What -- what is the purpose that you included  
23 these data in your rebuttal exhibit?

24          A     The purpose was to demonstrate that regulatory  
25 jurisdictions that are considered more constructive tend

1 to have higher authorized ROEs. And I think almost --  
2 however you cut the data, regardless of what market --  
3 excuse me -- what time period you look at, you'll  
4 probably find that -- that finding to hold.

5 There is a relationship between the degree of  
6 constructiveness of regulatory jurisdictions and  
7 authorized returns.

8 **Q Do you believe the -- the data on those**  
9 **exhibits, even as included in your rebuttal exhibit, are**  
10 **indicative of where FPL's cost of equity should be?**

11 A I think right now, the -- there are one or two  
12 observations that are within my recommended range, but I  
13 think my recommended -- excuse me -- recommended range  
14 is appropriate, even though it's at the higher -- it's  
15 higher than many of those observations.

16 **Q Mr. Moyle started this cross examination by**  
17 **asking you to agree with his use of the term "profit" to**  
18 **equate to cost of equity or return on equity. Do you**  
19 **recall that discussion?**

20 A Yes, and I agreed to for the purpose of that  
21 conversation.

22 **Q For the purposes of that conversation.**  
23 **What -- what do companies do with that return or -- if**  
24 **we were to use Mr. Moyle's term "profit," what do**  
25 **companies do with that return?**

1           A       The profit is a portion of the cash flow. We  
2 had a discussion earlier today as well about the extent  
3 to which, in 2015, the company's internal cash flow was  
4 less than its capital investments. Profits are  
5 reinvested in the company. They are reinvested in  
6 capital. And they're used to pay dividends.

7           **Q       So, to the extent that the company is unable**  
8 **to meet all of its operational or investment needs**  
9 **with -- with its earnings through reinvestment, it would**  
10 **need to do what in order to finish out its -- its**  
11 **capital-investment needs?**

12          A       That was part of our conversation that, to the  
13 extent you cannot fund capital investments with  
14 internally-generated funds, you have to go to the  
15 capital markets. And that is especially important for  
16 companies like utilities that are capital-intensive.

17               The access to capital markets is extremely  
18 important, especially knowing that they typically are  
19 cash-flow constrained when it -- when you look at their  
20 capital-investment requirements.

21               MR. LITCHFIELD: Thank you.

22               That's all I have, Madam Chair.

23               CHAIRMAN BROWN: Thank you.

24               And I have been tracking these exhibits. So,  
25               let's -- let's attempt to go through this.

1 MR. LITCHFIELD: Thank you, Madam Chair. We  
2 would move Exhibits 124 through 133.

3 CHAIRMAN BROWN: Any objections? Seeing none,  
4 we will move in Exhibits 124 through 133.

5 (Whereupon, Exhibit Nos. 124 through 133 were  
6 admitted into the record.)

7 CHAIRMAN BROWN: All right. Let's do this  
8 pretty carefully here because we've already entered  
9 in several exhibits.

10 So, we've got -- FIPUG, you have Exhibit 656  
11 and 657.

12 MR. MOYLE: We would -- we would like those  
13 moved in, please.

14 MR. LITCHFIELD: No objection.

15 CHAIRMAN BROWN: All right. We will move in  
16 656 and 657.

17 (Whereupon, Exhibit Nos. 656 and 657 were  
18 admitted into the record.)

19 CHAIRMAN BROWN: I have already moved in  
20 Exhibits 659, 660, 661, 664, 665, 666, 667, 669,  
21 670, 671, 672, 673.

22 OPC, you have Exhibit 675.

23 MR. SAYLER: Yes, ma'am, we would like to move  
24 that into the record.

25 CHAIRMAN BROWN: Well, the full case is



1 already in under 672, just so you know.

2 MR. SAYLER: Sorry.

3 CHAIRMAN BROWN: So --

4 MR. SAYLER: 6- -- what -- 675?

5 CHAIRMAN BROWN: Yes, 675 is the Missouri PSC  
6 report in order in 200- in the 2014 rate case,  
7 but --

8 MR. LITCHFIELD: Madam Chair -- yeah, in fact,  
9 that's the order versus the testimony. And that  
10 was really the basis of our objection. It was one  
11 based on --

12 CHAIRMAN BROWN: That's right.

13 MR. LITCHFIELD: -- relevance.

14 CHAIRMAN BROWN: That's right.

15 MR. LITCHFIELD: The order of another  
16 jurisdiction -- I don't think Mr. Sayler  
17 established any foundation for this order being at  
18 all relevant to this Commission's determination --  
19 another company, another time, another set of  
20 facts.

21 And I think all he used it for was to show --  
22 to have Mr. Hevert read a couple of findings from  
23 the -- from the Commission's order relative to  
24 Mr. Hevert's testimony in that case.

25 Beyond that, I don't -- I don't really see why

1 it needs to be into the record, but --

2 MR. SAYLER: Madam Chair, I will defer to your  
3 pleasure, if you think it's relevant for the  
4 record. Otherwise, I'll withdraw it. Your choice.

5 MR. MOYLE: Well, can I -- can I be heard on  
6 this? I mean --

7 CHAIRMAN BROWN: Just a second.

8 Staff?

9 MS. HELTON: Madam Chair, if I could point  
10 out, too, when Mr. Sayler was cross-examining the  
11 witness concerning that exhibit, he didn't --  
12 Mr. Litchfield did not raise any objection at that  
13 time. So, we did not know that Mr. Litchfield had  
14 an objection to the exhibit until we were going  
15 through determining what exhibits to admit.

16 So, I think that Mr. Litchfield's objection  
17 may be a little bit late.

18 CHAIRMAN BROWN: Besides that -- I'm not sure  
19 if that's -- that's actually accurate. Besides  
20 that, do you have an objection to entering it into  
21 the record, listening to Mr. Litchfield's --

22 MS. HELTON: No, ma'am, I -- I think you can  
23 put it into the record and give it the weight that  
24 it's due.

25 CHAIRMAN BROWN: I think that's fair. We'll

1 go ahead and do that. 675 will be entered into the  
2 record and give it -- according to Counsel's  
3 advice.

4 (Whereupon, Exhibit No. 675 was admitted into  
5 the record.)

6 CHAIRMAN BROWN: 676 is the hospital --  
7 actually, 676 through -- let me just do this  
8 carefully for you.

9 MR. RAPPOLT: Sure.

10 CHAIRMAN BROWN: 676, 677, 678, 679, 680, and  
11 681 -- would you like to move those into the  
12 record?

13 MR. RAPPOLT: Yes. Yes, Madam Chair.

14 CHAIRMAN BROWN: I'm going to stop you right  
15 there.

16 MR. RAPPOLT: We also have --

17 CHAIRMAN BROWN: I'm going to stop you there.

18 MR. LITCHFIELD: That's -- that's perfect. I  
19 have no objection for 76 through eight or 80  
20 through 81, 680 through 681, to be precise.

21 679, I'm fine with, if we can get the full  
22 piece of testimony entered.

23 CHAIRMAN BROWN: Okay.

24 MR. RAPPOLT: It's already full.

25 CHAIRMAN BROWN: Okay.

1 MR. LITCHFIELD: I -- I don't know that it was  
2 marked as a full copy.

3 MR. RAPPOLT: It is. It's the full copy.

4 MR. LITCHFIELD: Okay. I stand corrected.

5 CHAIRMAN BROWN: Okay. Seeing no other  
6 objections, we will move 676, 677, 678, 679, 680,  
7 and 681 into the record.

8 (Whereupon, Exhibit Nos. 676 through 681 were  
9 admitted into the record.)

10 MR. LITCHFIELD: We are not moving 682 into  
11 the record, which is the demonstrative exhibit, per  
12 Hospital's original --

13 MR. RAPPOLT: That -- that's fine. We can  
14 just rely on the MFR.

15 CHAIRMAN BROWN: Okay. And then you've got  
16 683, 684, 685. Would you like to move those into  
17 the record?

18 MR. RAPPOLT: Yes.

19 MR. LITCHFIELD: No objection.

20 CHAIRMAN BROWN: No objection. We will move  
21 those six -- three into the record.

22 (Whereupon, Exhibit Nos. 683 through 685 were  
23 admitted into the record.)

24 CHAIRMAN BROWN: 686 is already in the record.  
25 It's the Missouri PSC order.

1 MR. RAPPOLT: I'm not sure it is, Madam Chair.

2 MR. SAYLER: No, ma'am, it's not. It's --

3 it's a different order from the Missouri

4 Commission.

5 MR. RAPPOLT: This one is February 2014. And

6 my understanding is 673 is February 2016.

7 CHAIRMAN BROWN: And that was 672.

8 MR. LITCHFIELD: Then we would ask for a full

9 copy of the testimony to be entered.

10 CHAIRMAN BROWN: We'll just -- okay. Are you

11 amenable to that?

12 MR. RAPPOLT: Yes.

13 CHAIRMAN BROWN: Okay. We will move 686 into

14 the record.

15 (Whereupon, Exhibit No. 686 was admitted into

16 the record.)

17 CHAIRMAN BROWN: And your last one is the

18 Texas docket, 687.

19 MR. RAPPOLT: That's right.

20 CHAIRMAN BROWN: And that's an excerpt as

21 well.

22 MR. RAPPOLT: Yes.

23 CHAIRMAN BROWN: Have you provided a full copy

24 to FPL?

25 MR. RAPPOLT: We have, yes, now.

1 MR. LITCHFIELD: Yes. So -- yes, if the full  
2 can be entered, that would be great.

3 CHAIRMAN BROWN: So, seeing no objection, we  
4 will enter 687 into the record as well.

5 (Whereupon, Exhibit No. 687 was admitted into  
6 the record.)

7 CHAIRMAN BROWN: Staff, you have 688 through  
8 692. 692 is already in the record. That's the  
9 TECO docket.

10 MR. LITCHFIELD: Since they crossed on it, we  
11 have no objection to it going in separately.

12 CHAIRMAN BROWN: Okay. That will be easier.  
13 So, 688 through 692.

14 Would you like those moved into the record?

15 MS. BROWNLESS: Yes, please.

16 CHAIRMAN BROWN: We'll go ahead and do that.

17 (Whereupon, Exhibit Nos. 688 and 692 were  
18 admitted into the record.)

19 CHAIRMAN BROWN: Would you like to excuse this  
20 witness now?

21 MR. LITCHFIELD: I would, but he will return  
22 next week.

23 CHAIRMAN BROWN: Can't wait to see him.

24 MR. LITCHFIELD: Thank you, Madam Chair.

25 CHAIRMAN BROWN: You are excused. Thank you.

1 I hope you have a good night.

2 I do want to note right now that AARP has been  
3 excused from the rest of the evening, but will  
4 return tomorrow morning. So, I just wanted to note  
5 that for the record.

6 Are there any process, housekeeping items  
7 right now?

8 MR. SAYLER: No, ma'am, thank you.

9 CHAIRMAN BROWN: Okay. FPL, are you ready to  
10 call your next witness?

11 MR. LITCHFIELD: Yes, we are.

12 CHAIRMAN BROWN: We are, too.

13 MR. LITCHFIELD: Mr. Dewhurst is the next  
14 witness for Florida Power & Light Company, Madam  
15 Chair.

16 CHAIRMAN BROWN: Okay.

17 (Discussion off the record.)

18 CHAIRMAN BROWN: All right. I do not believe  
19 Mr. Dewhurst -- he was sworn in?

20 MR. LITCHFIELD: Actually -- excuse me.  
21 Actually, I believe he may have been here the first  
22 morning.

23 Were you sworn the first morning,

24 Mr. Dewhurst?

25 He was.

1 THE WITNESS: Yes, I have been.

2 CHAIRMAN BROWN: Wonderful. Welcome back.

3 THE WITNESS: Thank you.

4 CHAIRMAN BROWN: Good evening. Thank you for  
5 being here with us at this hour.

6 MR. LITCHFIELD: Ready to proceed?

7 CHAIRMAN BROWN: Ready.

8 DIRECT EXAMINATION

9 BY MR. LITCHFIELD:

10 Q Mr. Dewhurst, would you please state your name  
11 and business address.

12 A My name is Moray Peter Dewhurst. My business  
13 address is 700 Universe Boulevard, Juno Beach, Florida.

14 Q And by whom are you employed and what  
15 capacity?

16 A Happily, I am now unemployed. I am the  
17 retired chief financial officer, and vice chairman of  
18 NextEra Energy, and retired chief financial officer of  
19 Florida Power & Light.

20 Q Have you prepared and caused to be filed 34  
21 pages of direct testimony in this proceeding?

22 A Yes, I have.

23 Q On August 16th of this year and also on  
24 August 18th of this year, FPL filed errata sheets for  
25 your direct testimony and certain MFR schedules. Do you



1 **recall that?**

2 A I do.

3 **Q Beyond those filed errata, do you have any**  
4 **further changes or revisions to your direct testimony?**

5 A I do. On Page 21, Line 19, you will see the  
6 word "uncertainly," with an "l-y," and that should  
7 actually read uncertainty, with a "t-y."

8 **Q Thank you -- thank you for that change.**

9 With those changes, and subject to the  
10 adjustments set forth in Ms. Ousdahl's Exhibits KO-19  
11 and KO-20, if I were to ask you the questions reflected  
12 in your direct testimony, would your answers be the  
13 same?

14 A Substantively, they would be the same. I hope  
15 some of them would be more artfully-put, but yes.

16 MR. LITCHFIELD: Madam Chair, I would ask that  
17 Mr. Dewhurst's direct testimony be inserted into  
18 the record as though read.

19 CHAIRMAN BROWN: We will insert Mr. Dewhurst's  
20 prefiled direct testimony into record as though  
21 read.

22 (Prefiled direct testimony inserted into the  
23 record as though read.)

24

25

**ERRATA SHEET**

WITNESS: MORAY DEWHURST –DIRECT TESTIMONY

<u>PAGE #</u>	<u>LINE #</u>	<u>CHANGE</u>
18	16	Strike extra period.
28	18-19	Change “p. 32” to “p. 35”

1 **I. INTRODUCTION AND SUMMARY**

2

3 **Q. Please state your name and business address.**

4 A. My name is Moray P. Dewhurst. My business address is Florida Power &  
5 Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420.

6 **Q. By whom are you employed and what is your position?**

7 A. Effective March 4, 2016, I retired as Vice Chairman and Chief Financial  
8 Officer of NextEra Energy, Inc. I also served as Executive Vice President of  
9 Finance and Chief Financial Officer of Florida Power & Light Company  
10 ("FPL" or "the Company").

11 **Q. Please describe your duties and responsibilities in that position.**

12 A. In my role with the Company, I was responsible for the major financial areas  
13 of FPL and its parent, including the accounting and control functions, tax,  
14 treasury, and risk management. I oversaw the establishment and maintenance  
15 of the financial plans, controls and policies for FPL. I also was responsible  
16 for establishing and maintaining effective working relations with the  
17 investment and banking communities, and for communicating the results of  
18 our operations to investors and rating agencies. Throughout my tenure at  
19 NextEra and FPL, I was a member of the senior executive team, which has  
20 responsibility, under the leadership of the CEO, for all aspects of the  
21 management of the enterprise, including strategy development and overall  
22 resource allocation.

1 Q. Please describe your educational background and professional  
2 experience.

3 A. I have a Bachelor's degree in Naval Architecture from MIT and a Master's  
4 degree in Management, with a concentration in finance, from MIT's Sloan  
5 School of Management. I have approximately twenty years of experience  
6 consulting to Fortune 500 and equivalent companies in many different  
7 industries on matters of corporate and business strategy. Much of my work  
8 has involved financial strategy and financial restructuring. I was appointed to  
9 my prior position in October 2011 but also served as the Company's Chief  
10 Financial Officer ("CFO") from 2001 through 2008. From 2009 through  
11 2015, I served as Vice Chairman of NextEra Energy, Inc.

12 Q. In your prior role as CFO, how often would you meet with the investment  
13 community?

14 A. In the CFO role, I met frequently with equity and debt investors as well as  
15 securities analysts, holding two to three hundred individual and small group  
16 meetings in a typical year. I also participated in several conferences at which  
17 other utility companies also communicate with investors, and I also met at  
18 least twice annually with each of our three rating agencies. These meetings  
19 allowed me to understand both equity and debt investor and credit rating  
20 agency perceptions and concerns.

21 Q. Are you sponsoring any exhibits in this case?

22 A. Yes. I am sponsoring the following exhibits:

- 1 • MD-1 MFRs and Schedules Sponsored and Co-sponsored by Moray P.
- 2 Dewhurst
- 3 • MD-2 FPL's Virtuous Circle
- 4 • MD-3 Regional Comparison: ROE and Key Performance Metrics

5 **Q. Are you sponsoring or co-sponsoring any Minimum Filing Requirements**  
6 **("MFRs") filed in this case?**

7 A. Yes. Exhibit MD-1 shows my sponsorship and co-sponsorship of MFRs.

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to support key financial elements of FPL's  
10 base rate case filing. Specifically, my testimony supports the continued use of  
11 FPL's current capital structure as appropriate to meet future requirements and  
12 the 11 percent Return on Equity ("ROE") recommended by FPL witness  
13 Hevert, as an appropriate ROE. In addition, my testimony supports the  
14 adoption of an ROE performance adder of 50 basis points ("bps") for setting  
15 rates and the continued use of the Company's current storm cost recovery  
16 mechanism.

17 **Q. Please summarize your testimony.**

18 A. FPL has been successful over a sustained period of time in executing its  
19 strategy of seeking continuous, incremental improvement in its customer  
20 value proposition. This strategy is discussed by FPL witness Silagy, and  
21 many of the operational improvements that have resulted from it are discussed  
22 by other FPL witnesses. As a result, today FPL's customers enjoy what is  
23 surely the best value proposition in the state, combining relatively low bills

1 with high reliability, excellent customer service, and the lowest emissions rate  
2 in the state. At the same time, FPL has delivered good financial results for its  
3 investors, which in turn has ensured that FPL has ready access to the financial  
4 resources to execute its strategy. All of these efforts are consistent with the  
5 “Virtuous Circle” methodology depicted on Exhibit MD-2, which has guided  
6 FPL’s strategy for many years and about which I have testified in the past.

7  
8 One important aspect of FPL’s strategy has been the consistent maintenance  
9 of a core set of financial policies, which have ensured that the Company has  
10 access to the financial resources it needs at very competitive prices to execute  
11 its capital programs, to manage its liquidity needs, and to maintain the  
12 flexibility to respond rapidly to unexpected changes in the external  
13 environment – all of which are necessary to deliver superior customer value.  
14 FPL’s principal financial policies have focused on maintaining:

- 15 • A strong overall financial position;
- 16 • A balanced capital structure;
- 17 • Ready access to sufficient liquidity to support fluctuations in cash  
18 flow;
- 19 • Competitive returns to investors to compensate them for the use of  
20 their capital; and
- 21 • A mechanism for managing the financial impacts of storm  
22 restoration efforts.

23

1           These financial policies have served FPL and its customers extremely well.  
2           Among the 15 major investor-owned utilities (“IOUs”) providing service in  
3           the Southeast United States, FPL ranks number one in three important  
4           categories: (i) FPL’s typical residential bill is the lowest; (ii) FPL’s non-fuel  
5           O&M cost per MWh is the lowest; and (iii) FPL’s carbon dioxide emissions  
6           rate is the lowest. Additionally, FPL received the ReliabilityOne™ Award for  
7           Outstanding Reliability Performance among large utilities in the Southeast  
8           region, and FPL’s customer satisfaction score in the JD Power analysis is the  
9           second highest in the region. These comparisons are shown on Exhibit MD-  
10          3. At the same time, FPL has represented for investors a high-quality and  
11          attractive investment opportunity, thus ensuring ready and consistent access to  
12          the capital needed to execute FPL’s strategy.

13  
14          Given the demonstrated success of both FPL’s overall strategy and the  
15          financial policies that have underpinned it, there is no reason to make major  
16          changes at this time. FPL’s filing proposes a continuation of the successful  
17          policies of the past, updated to reflect today’s market conditions, to support a  
18          continued strategy of improving the customer value proposition. Specifically,  
19          (i) the continued use of FPL’s historical capital structure, (ii) the provision of  
20          an allowed ROE consistent with current capital market conditions, and (iii) the  
21          provision of a suitable mechanism for the prompt recovery of prudently  
22          incurred storm restoration costs are three major elements that will continue to

1 support FPL's ability to improve its already excellent customer value  
2 proposition.

3

4 In addition, the provision of a 50 bps ROE adder is appropriate for important  
5 policy reasons. Such an incentive would send a strong signal, not just to FPL  
6 but also to investors and other stakeholders, of the importance of consistently  
7 seeking to improve value delivery for customers and of being willing to  
8 innovate and take risks in pursuit of superior outcomes for customers.

9

10 **II. THE ROLE AND IMPORTANCE OF A**  
11 **STRONG FINANCIAL POSITION**

12

13 **Q. What have been FPL's financial policies?**

14 A. In broad terms, the financial policies FPL has employed for well over a  
15 decade have emphasized the importance of a strong financial position and the  
16 benefits it provides customers. To that end, and recognizing the Company's  
17 specific challenges, FPL has maintained ample liquidity, employed a balanced  
18 capital structure consistent with other financially strong utilities, sought  
19 authorization for and delivered a competitive ROE consistent with its risk  
20 profile and market factors, and sought authorization for and utilized storm cost  
21 recovery mechanisms that support quick service restoration for customers.

22 **Q. What have been the results of these financial policies?**



1 A. FPL and its customers have enjoyed a low total cost of capital, the ability to  
2 support a large capital expenditure program, and the ability to maintain strong  
3 liquidity reserves providing necessary financial flexibility – particularly in  
4 response to unplanned needs. FPL’s financial policies have contributed to the  
5 success of the Company’s overall strategy to continuously improve its value  
6 proposition by continuing to improve the service it provides *and* drive down  
7 the cost customers pay, to the point where a typical residential customer’s bill  
8 is 30 percent below the national average.

9 **Q. How are these financial policies related to FPL’s overall strategy?**

10 A. FPL’s financial policies directly support and follow from the broader  
11 Company business strategy, the foundation of which is the “Virtuous Circle”  
12 (depicted in Exhibit MD-2). The concept of the Virtuous Circle is customer-  
13 centric, and the strategy starts with seeking to deliver superior customer value  
14 and to improve the delivery of value over time. While not guaranteed,  
15 superior customer value delivery is likely to lead to greater customer  
16 satisfaction, which in turn is likely to support a constructive regulatory  
17 environment, which in turn is likely to enable the Company to earn  
18 competitive financial returns, which provides the basis for the ability to access  
19 the capital needed to reinvest in the business in order to further improve the  
20 customer value proposition.

21  
22 Within this high-level framework, FPL’s financial policies are designed to  
23 support the ability to invest to improve customer value, both directly through

1 access to capital and liquidity on attractive terms, and indirectly through  
2 upholding the other side of the bargain by providing investors a competitive  
3 return.

4 **Q. Have these financial policies been supported by the Florida Public Service  
5 Commission (“FPSC” or “the Commission”)?**

6 A. With one exception, the FPSC has consistently supported FPL’s focus on  
7 financial strength and recognized the long-term benefits it brings to  
8 customers. FPL was provided the tools needed to continue its financial  
9 policies and remain financially strong as a result of the base rate settlements  
10 the Commission approved in 1999, 2002, 2005, and 2012. The approval of  
11 this Commission and support of key stakeholders who participated in these  
12 agreements has been a very important part of our ability to realize the  
13 achievements that represent such strong value for our customers today.

14 **Q. Have there been any exceptions to this support?**

15 A. There was one. The 2009 Rate Case was highly politicized and its outcome,  
16 the 2010 Rate Order, was followed by credit rating downgrades. This  
17 situation was later alleviated by the settlement approved later in 2010 (the  
18 “2010 Rate Settlement”). The 2010 Rate Settlement provided sufficient,  
19 temporary assurance to investors that enabled FPL to continue with major  
20 capital investments, albeit reliant in part on the amortization of surplus  
21 depreciation, a non-cash item, to sustain adequate returns. While it was a  
22 useful stop-gap measure, it did not completely address the fundamental

1 financial issues created by the 2010 Rate Order. The 2012 Rate Settlement  
2 returned FPL to a position much more consistent with that prior to 2009.

3 **Q. What lessons should we draw from the last three rate cases and the**  
4 **Company's performance over that time frame?**

5 A. For well over a decade, FPL has improved its operational efficiency,  
6 generation fleet performance, power delivery reliability, customer satisfaction,  
7 and emissions rates – all while keeping customer bills low and providing  
8 generally adequate returns to investors. As discussed by FPL witness Cohen,  
9 FPL's typical residential bill is lower now than it was 10 years ago, about 30  
10 percent lower than the national average, and about 20 percent lower than the  
11 state average. While a persistent focus on efficiency and productivity has  
12 been very important, these results would not have been realized without FPL's  
13 focus on deploying capital in a "smart" fashion – either to reduce expenses in  
14 other elements of the cost chain or to enhance reliability and customer service  
15 directly. And key to that focus has been a consistent set of financial policies,  
16 enabled and supported by a series of constructive base rate settlements. The  
17 lessons to be drawn are that: (i) financial strength is an important foundation  
18 to the ability to invest capital in ways that improve the customer value  
19 proposition; and (ii) long-term customer interests are well served through the  
20 consistent application of sound financial policies.

21 **Q. Why is financial strength important to a utility and its customers?**

22 A. A regulated electric utility, which is an extremely capital intensive business,  
23 has an obligation to provide electric utility service to all customers in its

1 defined service area at rates that the Commission determines to be fair and  
2 reasonable. To fulfill this obligation to serve, regulated electric utilities need  
3 to make both planned and unplanned significant investments in property,  
4 plant, and equipment.

5  
6 The responsibility of an electric utility to serve everyone in its territory and to  
7 supply timely and efficient service is not contingent upon the health or the  
8 state of the financial markets. In times of constrained access to capital and  
9 depressed market conditions, only those utilities exhibiting financial strength  
10 are able to attract capital under reasonable terms, providing those utilities with  
11 significant and potentially critical flexibility. The requirement to access the  
12 capital markets in all market conditions can be contrasted with the financial  
13 needs of other entities without a legal obligation to serve. In my consulting  
14 experience, I repeatedly observed non-regulated companies adjust the timing  
15 and amount of their major capital expenditures to align with economic cycles,  
16 and to wait out market disruptions or even contract their operations to better  
17 match temporary market conditions. If faced with major storm damage, for  
18 example, FPL would not have that option.

19 **Q. Has FPL's financial strength supported its access to capital on reasonable**  
20 **terms, whenever needed, to serve its customers?**

21 A. Yes. By design, financial strength is intended not only for normal conditions  
22 but also for periods of market uncertainty and turmoil, so that a company is  
23 able to maintain continued ready access to capital on reasonable terms during

1 even the worst market conditions. FPL weathered the effects of the “Great  
2 Recession” of 2008-2009 without significant degradation of its access to  
3 capital and, following the 2010 Rate Settlement, was able to continue the  
4 investment program that is in large measure responsible for the strong  
5 customer value proposition it delivers today. It has been my experience from  
6 working closely with investors that FPL’s uninterrupted access to capital  
7 during the most recent market turbulence is a product of the Company’s  
8 financial strength that it has consistently maintained over an extended period  
9 of time.

10

11 Additionally, FPL was able to withstand two consecutive years (2004 and  
12 2005) in which its service territory was directly hit by seven hurricanes, five  
13 of which being classified as major hurricanes. Combined, these storms  
14 inflicted almost \$1.9 billion of casualty losses on FPL’s system. Were it not  
15 for FPL’s financial strength, FPL and its customers would have been  
16 materially disadvantaged.

17 **Q. In addition to allowing FPL to navigate market turmoil and unexpected**  
18 **events, has FPL’s financial strength benefited customers in other ways?**

19 **A.** Yes. The benefits of FPL’s strong financial position extend much beyond  
20 simply raising capital on favorable terms in good times and bad. The ability  
21 to place high reliance on capital availability affects how capital projects are  
22 planned and constructed, and that in turn influences negotiation with  
23 suppliers, resulting in more efficient capital projects overall. For example,

1 FPL's Engineering and Construction ("E&C") team is able to plan major  
2 capital projects for the optimum sequence and timing of activities from an  
3 E&C perspective, not based on the availability of financial resources. This in  
4 turn helps them in contractual negotiations with suppliers and is part of why  
5 FPL has been able to deliver major capital projects, such as power plants, at  
6 total capital costs that are highly competitive. Financially weaker competitors  
7 often have to make compromises in project sequencing and scheduling to  
8 accommodate financial resource availability, resulting in higher ultimate cost.  
9 In general, FPL's financial strength enables it to negotiate better terms with a  
10 wide variety of suppliers.

11 **Q. Please compare the level of capital investment by the utility industry with**  
12 **that of other industries, and compare FPL's level of capital investment to**  
13 **that of other electric utilities.**

14 A. As a sector, the electric utility industry is among the most, if not the most,  
15 capital intensive – meaning capital employed expressed relative to the value  
16 of output (i.e., total revenue). Equivalently, it has among the lowest asset  
17 turnover ratios (revenue divided by total assets). Based on data from the S&P  
18 Capital IQ database in January 2015, for every dollar of revenue in 2014, the  
19 average industrial firm required only \$0.96 of invested capital, whereas the  
20 average utility required \$2.16. FPL's capital intensity is more than double  
21 that of the average industrial firm, with total invested capital per dollar of  
22 revenue of \$1.98. This, however, is lower than the average electric utility,

1 which reflects both FPL's efficient use of capital relative to its electric utility  
2 peers as well as the Company's overall more efficient cost structure.

3  
4 It seems unlikely that these relative capital intensities will change significantly  
5 in the future. If anything, we are likely to see a continued incremental  
6 increase in capital intensity within the industry generally and at FPL  
7 specifically. According to Edison Electric Institute ("EEI") data, total  
8 industry capital investment is likely to be nearly \$100 billion per year in 2015-  
9 2016, up substantially from \$74 billion in 2010. As detailed elsewhere in  
10 FPL's filings, FPL's plans call for continued capital investment at rates well  
11 in excess of depreciation.

12  
13 The high and continuing capital intensity of FPL and the industry strongly  
14 suggests that confirmation of FPL's successful financial policies is  
15 appropriate for the planning period.

- 16 **Q. How does a utility's regulatory environment affect its financial strength?**
- 17 **A.** In my experience, investors routinely judge a regulatory environment by at  
18 least four attributes: predictability, stability, the availability of mechanisms for  
19 prompt recovery of prudently incurred costs, and a lack of politicization. The  
20 deterioration in one or more of these attributes can result in credit rating  
21 downgrades, as was seen after FPL's 2009 Rate Case. While investors differ  
22 in their exact assessments, these principles can be seen by reference to  
23 published statements by rating agencies. For example, S&P weights

1 regulatory environment most heavily when analyzing a regulated utility's  
2 business risk profile. The four categories that shape S&P's view in this regard  
3 are "regulatory stability, tariff-setting procedures and design, financial  
4 stability, and regulatory independence and insulation." (Standard & Poor's  
5 Ratings Services, "Assessing U.S. Investor-Owned Utility Regulatory  
6 Environments" (18 May 2015).)

7 **Q. Have FPL's financial policies supported its financial strength?**

8 A. Yes. FPL's financial policies, largely supported by the Commission over the  
9 years, have resulted in an excellent credit rating, a strong liquidity profile, a  
10 long history of success with FPL's banking partners, and a carefully managed  
11 capital structure. FPL has also been able to raise capital at very competitive  
12 rates. FPL's balance sheet, versus that of its peers, is better able to maintain  
13 strong financial ratios that preserve its cost of borrowing and provide a buffer  
14 against future unforeseen events. FPL currently has access to approximately  
15 \$3 billion in available liquidity from external sources. Qualitatively, FPL  
16 maintains strong relationships with banks and investment institutions, and  
17 supports strong investor confidence. FPL currently is rated 'A-' by S&P, 'A1'  
18 by Moody's, and 'A' by Fitch.

19 **Q. Do you expect FPL's financial policies to change?**

20 A. No. The current approach has worked well both for customers and for  
21 investors, and the Commission should support its continuation. Indeed, long-  
22 term financial policy consistency is important to its success for both



1 customers and investors. Looking forward, FPL will continue to need ready  
2 access to capital at reasonable terms and ample liquidity.

3 **Q. How do your recommendations in this case align with the continuation of**  
4 **FPL's financial policies?**

5 A. My recommendations align well with FPL's financial policies. Specifically, I  
6 recommend that FPL's base rates beginning in 2017 continue to reflect FPL's  
7 actual equity ratio that has been in place for many years, and that the  
8 Commission approve an ROE that fairly compensates equity investors in light  
9 of FPL's unique risk profile. In that regard, an ROE of 11 percent is  
10 supported by FPL witness Hevert's market-based model analyses, as well as  
11 by my own pragmatic view based on frequent interactions with equity and  
12 fixed income investors and credit rating agencies. I also recommend an ROE  
13 adder of 50 basis points and the continuation of FPL's currently-approved  
14 storm cost recovery mechanism. My recommendations are entirely consistent  
15 with the continuation of the financial policies that have served customers so  
16 well.

17

18

### III. RISK PROFILE

19

20 **Q. What is a company's risk profile and why is it important?**

21 A. A company's risk profile is the unique collection of risks that it faces both in  
22 normal operations and in unusual circumstances. It is important because it  
23 heavily influences the degree of financial strength and flexibility that the

1 company requires and is therefore an important determinant of the appropriate  
2 capital structure to employ and the level of ROE required to provide adequate  
3 financial strength and a fair return to investors.

4 **Q. What are the key risk factors that the FPSC should consider in assessing**  
5 **FPL?**

6 A. FPL's risk factors can be grouped into five broad categories: (i) basic financial  
7 measures such as revenues, costs and capital expenditures; (ii) infrastructure,  
8 including transmission system, generation mix and fuel supply; (iii) climate  
9 and weather such as tropical storms; (iv) environmental; and (v) regulatory  
10 and political.

11 **Q. Please describe the risks surrounding future revenues, costs and capital**  
12 **expenditures.**

13 A. FPL's risk profile with respect to these measures is slightly greater than the  
14 typical utility's primarily because of FPL's extensive capital expansion  
15 program, as the Company continues to make investments to reduce expenses  
16 and to improve the service FPL provides its customers.. Investments of this  
17 magnitude, though valuable from a customer perspective, add modestly to  
18 FPL's risk profile as seen through investors' eyes.

19 **Q. Please describe the risks related to infrastructure.**

20 A. FPL's infrastructure exposes investors to risks not seen in most other utilities.  
21 These risks largely relate to Florida's unique geographical position and the  
22 location of FPL's service area within Florida. Florida's geographical position  
23 as a peninsula, with limited connectivity in transmission and fuel supply,

1 place constraints on FPL's transmission system, generation mix and fuel  
2 supply which translate into increased risk from an investor perspective. The  
3 additional risk specific to FPL among Florida utilities, which is due to the fact  
4 that it serves *both* coasts of the peninsula and therefore faces greater certainty  
5 of major storm damage, is discussed below.

6  
7 FPL's generation mix exposes FPL and its investors to greater risk than the  
8 typical utility, primarily through its extensive utilization of nuclear power and  
9 natural gas. Nuclear power plants are continuously subject to potential new,  
10 costly, federal regulatory requirements. While nuclear power and natural gas  
11 are on balance overwhelmingly beneficial for customers, the incremental risk  
12 must be properly reflected when considering financial strength and authorized  
13 ROE.

14 **Q. Does the fuel clause affect the risk associated with price volatility?**

15 A. Yes. The fuel clause moderates but does not eliminate the risk to investors.  
16 Like similar mechanisms that apply to many other utilities around the country,  
17 the fuel clause provides a degree of reassurance that prudently incurred fuel  
18 costs will be recovered on a relatively timely basis. However, FPL must still  
19 bear the risks associated with timing and liquidity, and from the investor  
20 perspective there remains risk of disallowance, notwithstanding FPL's strong  
21 track record of prudent management. The substantial exposure related to  
22 managing a fuel program as large as that managed by FPL requires sizeable

1 and significant liquidity; this call on liquidity further emphasizes the need for  
2 the Company to maintain financial strength.

3 **Q. Please explain the risks associated with climate and weather.**

4 A. FPL's service territory includes much of the east *and* west coastlines of  
5 Florida and these coastlines are highly exposed to damage from tropical storm  
6 activity. As discussed previously, FPL's service territory experienced an  
7 unusually high level of storm activity in 2004 and 2005 and incurred almost  
8 \$1.9 billion in costs to restore the electric transmission and distribution  
9 system. While the recovery of prudently incurred storm costs helps to  
10 mitigate this risk, FPL must maintain adequate liquidity for immediate  
11 response, and investors are still exposed to loss of revenues and other impacts  
12 during adverse weather conditions and restoration periods, such as  
13 unrecovered revenue requirements from the interruption in sales and other  
14 incremental costs that go unrecovered. These risks are unmitigated by any  
15 mechanism for storm cost recovery. Additionally, the limited electrical  
16 interconnection capacity serving Florida due to our peninsular geographic  
17 location means that the ability to supply purchased power from outside of  
18 Florida in the event that there is a significant need or disruption is severely  
19 constrained.

20 **Q. What action has FPL taken to reduce the impact of its above average  
21 exposure to extreme weather events?**

22 A. FPL has for many years imposed more stringent standards for its transmission  
23 and distribution facilities than is normal for the industry in recognition of its

1 greater vulnerability. In the wake of the 2004 and 2005 hurricane seasons,  
2 and in conjunction with the Commission's 2007 rule requiring the submission  
3 of detailed storm hardening plans every three years, FPL went further and  
4 began a comprehensive, long-term investment program aimed at strengthening  
5 its core infrastructure. But the storm hardening effort is far from complete,  
6 and even upon completion, will not completely eliminate FPL's heightened  
7 exposure and risk. In fact, much of the benefit of these efforts is realized in  
8 the form of improved recovery time after a storm, which has a limited impact  
9 on FPL's financial risk profile. FPL witness Miranda discusses FPL's storm  
10 hardening efforts in more detail.

11 **Q. Please describe the risk category relating to environmental risks and**  
12 **exposure.**

13 A. All utilities are subject to risks associated with environmental regulations.  
14 From an investor perspective, regulations are unpredictable, outside a utility's  
15 control, and can have a material impact on capital requirements and liquidity.  
16 The Environmental Cost Recovery Clause ("ECRC"), coupled with FPL's  
17 proactive approach to environmental issues (such as its investments to reduce  
18 emissions rates), help to ameliorate the impact of environmental regulation on  
19 FPL's risk profile. Nonetheless, uncertainty remains. For example, it remains  
20 to be seen specifically how the U.S. Environmental Protection Agency's  
21 Clean Power Plan will be implemented in Florida and what impact, if any, it  
22 will have on FPL.

1 **Q. Please summarize the political and regulatory risks facing FPL and its**  
2 **investors.**

3 A. As discussed above, investors evaluate regulatory jurisdictions on the  
4 predictability and stability, and lack of politicization, in regulatory outcomes.  
5 Investors are acutely aware of regulatory factors in different jurisdictions they  
6 evaluate, compare these factors across jurisdictions, and are extremely  
7 reluctant to commit capital to utilities operating in jurisdictions with uncertain  
8 or negative regulatory environments. This affects both the cost and  
9 availability of capital.

10 **Q. What conclusions should the Commission draw from your analysis of**  
11 **FPL's risk profile?**

12 A. FPL faces a unique mix of risk factors. Taken in aggregate, they imply that  
13 FPL's risk profile is somewhat greater than most utilities in the country,  
14 including those in FPL witness Hevert's proxy group. Accordingly, FPL  
15 should maintain a stronger financial position than the typical utility, which  
16 historically has been the case. FPL's somewhat riskier investment profile also  
17 should be properly reflected in FPL's authorized ROE.

18

19

#### IV. CAPITAL STRUCTURE

20

21 **Q. What is your recommendation for an equity ratio for FPL for regulatory**  
22 **purposes?**

1 A. I recommend the confirmation of an approved regulatory capital structure that  
2 includes a 59.6 percent equity ratio based on investor sources (45.13 percent  
3 based on all sources).

4  
5 FPL has maintained its equity ratio generally around the 59-60 percent level  
6 for well over a decade, and this has been an important underpinning of the  
7 overall financial strength that has served customers well. While the future  
8 will of course never be exactly like the past, there is no reason to believe that  
9 the value of financial strength to FPL and its customers is any less now – or  
10 will be any less in the near future – than it has been in the past. Accordingly,  
11 continuation of the successful policies that have supported FPL and its  
12 customers to date is appropriate. If coupled with an adequate ROE and base  
13 rates that properly reflect the true cost of service, which includes taking into  
14 account the cessation of Reserve Amortization, the current equity ratio will  
15 continue to support FPL’s strong financial position and the benefits it provides  
16 to customers.

17 **Q. Is FPL’s request consistent with Commission guidance on this topic?**

18 A. Yes. The Commission has stated that the capital structure used for ratemaking  
19 purposes should bear an appropriate relationship to the utility’s actual sources  
20 of capital. (See e.g., Order No. 850246-EI, *Petition of Tampa Electric*  
21 *Company for Authority to Increase its Rates and Charges*.) FPL has for many  
22 years consistently maintained the capital structure it is requesting the  
23 Commission to use for ratemaking purposes.

1 Q. Does the investment community view FPL's current equity ratio as  
2 adequate?

3 A. Yes. Investors recognize FPL's particular risk profile and its particular need  
4 for financial strength and accordingly expect it to maintain a strong capital  
5 structure. Because FPL has maintained essentially the same actual capital  
6 structure for many years, any change from this would likely raise questions in  
7 investors' minds and would be viewed as a negative departure from past  
8 practice.

9 Q. How did FPL project its long-term debt cost?

10 A. FPL relies on the Blue Chip Financial Forecast which represents the  
11 consensus estimates of more than 40 economists. Cost projections for new  
12 issuances are shown in MFR D-8. FPL's blended cost rates for the test and  
13 subsequent years are shown in MFR D-4a.

14 Q. How did FPL project its short-term debt cost?

15 A. FPL relies on the forward Intercontinental Exchange London Interbank  
16 Offered Rate ("LIBOR") curve for its short-term debt cost projections. These  
17 projections are shown in MFR D-3.

18 Q. What are the other components of FPL's capital structure, and where can  
19 support for those components be found in FPL's filing?

20 A. FPL's 59.6 percent equity ratio is based on investor sources which includes  
21 only equity and debt components. However, FPL's regulatory capital  
22 structure includes other sources such as customer deposits, deferred income



1 taxes, and investment tax credits. Those components are found in MFR D-  
2 1A.

3 **Q. What Weighted Average Cost of Capital (“WACC”) would result from**  
4 **FPL’s requests in this proceeding?**

5 A. FPL’s regulatory capital structure would produce a total WACC of 6.61  
6 percent. This is a very reasonable WACC, reflecting one of the ways in which  
7 FPL’s financial strength directly benefits customers. In fact, FPL’s requested  
8 WACC would be substantially below the average WACC of 7.57 percent  
9 approved for U.S. electric utilities for ratemaking purposes over the last three  
10 years, as reported by Regulatory Research Associates. It is the WACC that  
11 represents the actual cost of financing FPL’s infrastructure and is the cost of  
12 capital reflected in rates.

13

14 **V. RETURN ON EQUITY**

15

16 **Q. Please comment on FPL witness Hevert’s proposed ROE of 11 percent.**

17 A. Based on my experience and familiarity with FPL’s financial position, as well  
18 as my direct knowledge of investor perceptions, an ROE of 11 percent will  
19 meet all the criteria identified earlier and is consistent with maintaining FPL’s  
20 strong financial position.

21

22 The reasonableness of FPL’s requested ROE is further supported when  
23 considered against the current allowed ROEs for other regulated utilities,

1 particularly within the state of Florida and in the Southeastern U.S. A  
2 comparison of key performance metrics and authorized ROEs in the Southeast  
3 is presented in Exhibit MD-3.

4 **Q. Is the effect of FPL's risk profile reflected in FPL's requested ROE?**

5 A. Yes. It is my judgment that an ROE of 11 percent would adequately reflect  
6 FPL's risk profile, including the attendant risk of the Company's proposed  
7 multi-year rate case stay-out, as discussed by FPL witness Hevert in his  
8 assessment of FPL's risk profile and the appropriateness of his recommended  
9 ROE. During this extended period of time, FPL and its investors will have  
10 significant exposure to the forecasted rising interest rate environment, and  
11 terms of access to capital could change unexpectedly, with more likelihood of  
12 unfavorable than favorable change. The Federal Reserve's December 2015  
13 decision to increase short-term interest rates from near-zero levels for the first  
14 time in seven years is a signal of the central bank's shifting stance on  
15 monetary policy; however, there is substantial uncertainty around possible  
16 future actions. From an investor's perspective, FPL is foregoing the  
17 possibility of seeking rate relief over this four-year period in the face of  
18 substantial uncertainty. This risk is appropriately reflected in the  
19 recommended 11 percent ROE.

20 **Q. Is FPL's requested ROE consistent with maintaining financial strength?**

21 A. Yes. An adequate ROE is important to fairly compensate equity investors for  
22 the use of their capital and enable the Company to offer a return sufficient to  
23 compete with other firms and attract new capital on reasonable terms, which

1 in turn helps to ensure that FPL can achieve and maintain the necessary  
2 financial strength to meet its obligations to its customers.

3

4

**VI. ROE PERFORMANCE ADDER**

5

6 **Q. Please describe the ROE performance adder proposed by the Company.**

7 A. FPL is asking the Commission to increase the authorized ROE established in  
8 this case by 50 bps, both to reflect what FPL has already accomplished in its  
9 efforts to deliver superior value to its customers and as an incentive to  
10 promote further efforts to improve the customer value proposition.

11

12 As further explained by a number of other FPL witnesses providing testimony,  
13 FPL's superior service is exemplified by the following:

- 14 • Low bills: Customer bills are 30 percent below the national average, 20  
15 percent below the Florida state average, and lower now than they were 10  
16 years ago (see FPL witness Cohen's testimony);
- 17 • High reliability: FPL has the lowest SAIDI among Florida IOUs and a  
18 SAIDI that is 44 percent better than the national average. In addition, FPL  
19 was awarded the ReliabilityOne™ National Reliability Excellence Award,  
20 PA Consulting's top annual honor (see FPL witness Miranda's testimony);
- 21 • Low emissions: FPL already complies with the U.S. EPA's proposed CPP  
22 targets for the state of Florida for 2030 (see FPL witness Silagy's  
23 testimony);

- 1           • Award-winning customer service: FPL has high customer satisfaction
- 2           rates and is continuously recognized for its outstanding customer service
- 3           (see FPL witness Santos’s testimony);
- 4           • High fossil fleet reliability: FPL’s fossil fleet EFOR has regularly been
- 5           “top decile” or “best in class” (see FPL witness Kennedy’s testimony);
- 6           • Highly efficient generating plants: Since 2001, the industry average net
- 7           heat rate for all fossil units has improved only six percent, while FPL’s
- 8           fossil fleet net heat rate improved more than 21 percent and continues to
- 9           be “best-in-class” (see FPL witness Kennedy’s testimony);
- 10          • Low non-fuel O&M: FPL’s customers are saving approximately \$1.9
- 11          billion a year in non-fuel O&M, as compared to an “average” company’s
- 12          performance (see FPL witness Reed’s testimony).

13   **Q.    Is FPL’s request for an ROE adder consistent with previous requests**  
14   **made to, and approved by, the Commission?**

15   A.    Yes. In 2002, the Commission added 25 bps to Gulf Power Company’s  
16   (“Gulf’s”) ROE mid-point in recognition of Gulf’s superior past performance,  
17   and with the expectation that a similar level of performance would continue  
18   into the future. (Docket No. 010949-EI, Order No. PSC-02-0787-FOF-EI, p.  
19   32 (issued June 10, 2002).)

20   **Q.    What factors should the Commission consider when evaluating FPL’s**  
21   **performance for purposes of determining whether or not to authorize an**  
22   **ROE performance adder?**

1 A. The factors the Commission should consider are the same as those presented  
2 in support of FPL's request for a performance-based ROE adder in the 2012  
3 Rate Case. In sum, the Commission should consider a broad array of  
4 performance measures that contribute to FPL's delivery of superior value.  
5 Chief among these are cost or affordability, reliability of service, and  
6 customer service quality. In addition, given the likely increasing pressure on  
7 emissions from the electric utility industry in coming years, the Commission  
8 should also consider FPL's comparative emissions rates, particularly of CO<sub>2</sub>,  
9 the principal long-term driver of climate change. The Commission should  
10 also assess the sustainability of performance, in order to avoid providing an  
11 incentive for temporary but unsustainable performance.

12 **Q. Why is a performance adder appropriate if utilities have an obligation to**  
13 **serve their customers?**

14 A. While all utilities with an obligation to serve will naturally strive to deliver  
15 good value, there is in practice a wide range of activities that can be pursued  
16 to deliver customer value, all of which would be considered prudent, yet some  
17 of which may be more innovative and riskier but with a greater potential for  
18 improving customer value. Moreover, as a pragmatic matter, my experience  
19 suggests that there can be substantial degrees of difference in how intensively  
20 different companies pursue opportunities to improve. A performance adder  
21 would provide positive, economic encouragement to induce a higher degree of  
22 innovation and a higher degree of 'stretch' in pursuit of superior outcomes,

1 encouraging utilities to develop initiatives and programs that have the  
2 potential to generate savings and improve productivity.

3  
4 Currently, there is very little difference among the authorized ROE midpoints  
5 for investor-owned electric utilities in Florida. The narrow range of 10.25 to  
6 10.50 reflects relative risk profiles and other factors as well as settled  
7 outcomes – not recognition of performance. Accordingly, presently there is  
8 no financial incentive for sustained improvement to customer value.

9 **Q. Are there broader policy objectives associated with awarding a**  
10 **performance-based ROE adder?**

11 A. Yes. From a policy perspective it is important that some general relationship  
12 exist between a utility's allowed ROE and its relative performance in  
13 delivering value to its customers. It is in customers' long-term interests that  
14 utilities have a strong incentive to deliver superior value and to improve their  
15 value delivery over time. It is inconsistent with sound regulatory policy for a  
16 company with a superior record of delivering value to its customers to emerge  
17 from a key regulatory proceeding without any reflection of that performance  
18 in its allowed ROE.

19  
20 Moreover, a meaningful performance-based reward such as that recommended  
21 by FPL would surely focus investor attention more directly on a company's  
22 customer value proposition, and in my experience a company's management  
23 responds to feedback and questioning that it receives from investors, just as it

1 does with feedback and questioning that it receives from regulatory bodies.  
2 Over time this is likely to increase the pressure to improve the customer value  
3 proposition. Although not the direct purpose of FPL's proposed adder, it  
4 could also work to encourage other electric utilities to strive for continuously  
5 improving performance and customer value in innovative ways as well, in  
6 hopes of achieving a similar reward.

7 **Q. Couldn't the Commission simply penalize poor performance instead of**  
8 **rewarding good performance?**

9 A. While penalties for deliberately or negligently poor performance may be  
10 appropriate in some circumstances, in the vast majority of cases regulated  
11 utilities are seeking to provide good value to customers. The practical issue is  
12 how to encourage new and different approaches in order to advance the "state  
13 of the art" in providing service to customers. Negative incentives will tend to  
14 promote risk avoidance: utilities will work hard to avoid being penalized, but  
15 they will be much less likely to take the risks needed to seek out new  
16 possibilities. In contrast, a positive incentive such as FPL's proposed  
17 performance adder will actively encourage the difficult challenge of seeking  
18 new and different approaches in order to improve customer value.

19 **Q. In your opinion, how would the investment community react to the**  
20 **Commission's acknowledgment of superior performance and**  
21 **authorization of a performance-based ROE adder?**

22 A. Meaningful recognition of performance would be perceived by investors and  
23 rating agencies as good for Florida IOUs as a whole. As noted above, it

1 would likely have the effect of increasing investor focus on customer value,  
2 and result in investors urging utility management to improve customer value  
3 in hopes of earning a higher authorized return. This effect would tighten the  
4 linkage between the long-term interests of investors and customers.

5

6

## VII. STORM COST RECOVERY

7

8 **Q. Is FPL requesting a storm accrual in this proceeding?**

9 A. No. FPL is not requesting a storm accrual in this proceeding.

10 **Q. How does FPL propose to address storm recovery in this proceeding?**

11 A. FPL proposes to continue to recover prudently incurred storm costs under the  
12 framework prescribed by the 2010 Rate Settlement, and continued by the 2012  
13 Rate Settlement. Specifically, if FPL incurs storm costs related to a named  
14 tropical storm, the Company may begin collecting up to \$4 per 1,000 kWh  
15 (roughly \$400 million annually) beginning 60 days after filing a petition for  
16 recovery with the FPSC. This interim recovery period will last up to 12  
17 months. If costs related to named storms exceed \$800 million in any one year,  
18 the Company can also request that the Commission increase the \$4 per 1,000  
19 kWh accordingly. This cost recovery mechanism also would be used to  
20 replenish the Company's storm reserve in the event that it was fully depleted  
21 by storm costs. Any cost not recovered under this mechanism is deferred on  
22 the balance sheet and recovered beyond the initial 12 months as determined by  
23 the Commission.



1 **Q. Is this proposal a departure from prior FPL positions on this issue?**

2 A. Yes. Prior to the 2010 Rate Settlement, the Commission employed a  
3 regulatory framework for storm cost recovery consisting of three main parts:  
4 (1) an annual storm accrual, adjusted over time as circumstances change; (2) a  
5 storm damage reserve adequate to accommodate most but not all storm years;  
6 and (3) a provision for utilities to seek recovery of costs that went beyond the  
7 storm reserve. These three parts acting together allowed FPL over time to  
8 recover the full costs of storm restoration, while at the same time balancing  
9 competing customer interests: that is, minimizing and mitigating the ongoing  
10 impact as much as possible, softening the impact to customer bills because the  
11 reserve may have been insufficient, and intergenerational equity.

12 **Q. Why is FPL not proposing in this proceeding to use a framework that has  
13 proven successful in the past?**

14 A. As a former CFO with direct experience of the impact on FPL's financial  
15 position of multiple major tropical systems, I still believe the approach taken  
16 prior to 2009 is the best compromise that balances multiple and sometimes  
17 conflicting objectives. However, I understand that not everyone agrees and  
18 that several intervenors have indicated that they prefer not to contribute to a  
19 regular accrual. Thus, FPL has essentially taken this issue off the table and  
20 proposes to continue, for the four-year term of FPL's rate proposal, the  
21 alternative cost recovery framework that was approved in the 2010 Rate  
22 Settlement and continued by the 2012 Rate Settlement.

23 **Q. Does the alternative cost recovery framework eliminate all risk?**

1 A. No. In the event of significant storm damage FPL will have access to a storm  
2 reserve smaller than it otherwise would have been, and the resulting  
3 supplemental charge will be larger and/or will last longer than it otherwise  
4 might have. The lack of an adequate storm reserve underscores the need for a  
5 strong balance sheet to quickly access capital. FPL continues to believe that  
6 the best long term policy is to revert to the traditional proven framework and  
7 reinstitute an annual accrual, recovered through rates, to the storm reserve.  
8 From a financial or actuarial standpoint, over a period of years, storm  
9 restoration costs are an entirely foreseeable and legitimate exposure associated  
10 with operating in a geography like Florida and are properly recoverable  
11 through base rates.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

1 BY MR. LITCHFIELD:

2 Q Now, Mr. Dewhurst, you have exhibits attached  
3 to your direct testimony identified as MD-1 through  
4 MD-3.

5 A That's correct.

6 Q Were these prepared under your direction or  
7 supervision?

8 A Yes, they were.

9 MR. LITCHFIELD: Madam Chair, I would note  
10 that these have been pre-identified in staff's  
11 comprehensive list as Exhibits 134 through 136.

12 CHAIRMAN BROWN: So noted.

13 At this time, staff, are you prepared to --

14 EXAMINATION

15 BY MS. BROWNLESS:

16 Q Hi, Mr. Dewhurst.

17 A Good evening.

18 Q Have you had an opportunity to review staff's  
19 Exhibit No. 579?

20 A Yes, I have.

21 Q And have you had an opportunity to review the  
22 exhibits that are associated with your name?

23 A Yes, I have.

24 Q Okay. Are these exhibits -- were they  
25 prepared by you or under your supervision and control?

1 A Yes, they were.

2 Q And are they true and correct, to the best of  
3 your knowledge and belief?

4 A Yes, they are.

5 Q And if you were asked the same questions today  
6 as you were asked on these materials, would your answers  
7 be the same?

8 A Yes, they would.

9 Q And are there any portions of this exhibit  
10 that you prepared that are confidential?

11 A Exhibit 442, No. 15 -- a piece of that is  
12 confidential. I believe there is a third-party  
13 copyright issue.

14 MS. BROWNLESS: Okay. Thank you so much.

15 CHAIRMAN BROWN: Mr. Moyle?

16 MR. MOYLE: I'm sorry. I didn't -- it was  
17 442 -- what? I didn't --

18 CHAIRMAN BROWN: Mr. Dewhurst, can you repeat  
19 that?

20 THE WITNESS: Yes, it's Exhibit No. 442, which  
21 has several parts to it, Item 15.

22 CHAIRMAN BROWN: Got it?

23 MR. MOYLE: That is what I got -- didn't get,  
24 15. Thank you --

25 CHAIRMAN BROWN: Item 15.

1 MR. MOYLE: -- Madam Chair.

2 CHAIRMAN BROWN: Thank you.

3 Staff, are you done?

4 MS. BROWNLESS: That's all. Thank you so  
5 much.

6 CHAIRMAN BROWN: Thank you.

7 CONTINUED EXAMINATION

8 BY MR. LITCHFIELD:

9 Q Mr. Dewhurst, would you, now, provide a  
10 summary of your direct testimony for the Commission.

11 A Yes.

12 Good evening, Commissioners, Madam Chair. My  
13 direct testimony addresses the related areas of  
14 financial strength, risk profile, capital structure, and  
15 return on equity. I also propose the implementation of  
16 an ROE performance adder. And I support the  
17 continuation of the storm cost-recovery mechanism that's  
18 part of the current settlement agreement.

19 With respect to financial strength, risk,  
20 capital structure, and ROE, the essence of my testimony  
21 is simple. FPL has maintained a consistent set of  
22 financial policies for many years. These policies have  
23 been integral to our overall strategy and have served  
24 FPL and its customers well, as reflected in our overall  
25 delivery of customer value. There is no reason to

1 change these policies at this time.

2 Our financial policies include the maintenance  
3 of a strong overall financial position, a balance  
4 capital structure with roughly 60 percent of  
5 investor-sourced funds in the form of equity, ready  
6 access to sufficient liquidity to meet potentially large  
7 needs for cash, competitive returns to investors to  
8 compensate them for the use of their capital, and a  
9 mechanism for managing the financial impacts of  
10 storm-restoration efforts.

11 Maintaining our current capital structure,  
12 coupled with the provision of an adequate ROE consistent  
13 with current capital-market conditions as reflected in  
14 Witness Hevert's analysis, and the continuation of the  
15 storm cost-recovery mechanism like the one contained in  
16 our current settlement agreement will enable us to  
17 maintain our current strategy and to continue our strong  
18 track record of delivering superior value to our  
19 customers.

20 With respect to the ROE performance adder, our  
21 proposal would represent good policy, aligning well with  
22 the principle that regulation should serve as a  
23 surrogate for competition, and would send a strong  
24 signal to FPL, to its investors, and to others of the  
25 importance of striving to deliver superior customer

1 value.

2 The concept of the adder is justified by sound  
3 regulatory principles. Its applicability to FPL today  
4 is warranted by the superior value FPL is delivering to  
5 its customers, as reflected in the overall combination  
6 of low bills, higher reliability, excellence in customer  
7 service, and low emissions that characterize FPL's  
8 position today.

9 That completes my summary. Thank you.

10 CHAIRMAN BROWN: Um --

11 MR. LITCHFIELD: Mr. Dewhurst is available for  
12 cross examination.

13 CHAIRMAN BROWN: Thank you.

14 MR. LITCHFIELD: You had a question right out  
15 of the gate, didn't you?

16 (Laughter.)

17 CHAIRMAN BROWN: Thank you.

18 Good -- good evening, Mr. Dewhurst.

19 THE WITNESS: Good evening.

20 CHAIRMAN BROWN: Mr. Rehwinkel?

21 MR. REHWINKEL: I've been told there was a  
22 deal.

23 CHAIRMAN BROWN: Okay. That -- that  
24 applies -- the deal applies for this witness as  
25 well. Okay. And the deal is that FIPUG would go

1 first.

2 MR. MOYLE: Okay. Thank you.

3 EXAMINATION

4 BY MR. MOYLE:

5 Q Good evening, Mr. Dewhurst.

6 A Good evening.

7 Q How is retirement going?

8 A Until recently, it was going quite well.

9 (Laughter.)

10 Q And I say that hoping that it does go well,  
11 but I also want to explore a little bit as to the  
12 capacity in which you're appearing here.

13 But let me start -- you reviewed some  
14 documents and told the staff that you had reviewed  
15 Document 579. How many pages is Document 579 -- or  
16 Exhibit 579?

17 A I don't know how many pages there are, but  
18 this is -- this binder here reflects the portion of it I  
19 reviewed the other night.

20 Q Okay. So -- so, my -- it's pretty big, I take  
21 it? More than a thousand pages?

22 A I don't know.

23 MS. BROWNLESS: May I object to this line of  
24 questioning? Because I think Mr. Moyle has  
25 incorrectly characterized the question that was



1 asked and the response that was given.

2 We asked Mr. Dewhurst because that exhibit  
3 contains all of the work papers that FP&L used in  
4 the preparation of its case. So, for each witness,  
5 we have asked if they have reviewed their portion  
6 of the work papers.

7 And Mr. Dewhurst, if you can answer the  
8 question as to how large your portion of the work  
9 papers are, that would be the appropriate question,  
10 Madam Chair.

11 CHAIRMAN BROWN: Fair enough.

12 MR. MOYLE: Well, can -- just so I can be  
13 clear, that's -- the record will say what he said.  
14 So, we don't have to argue about what he said. And  
15 I'm asking for a purpose.

16 So, I'm happy to ask him, how much did you  
17 review. And it just -- if he generally knows --  
18 how big -- if it's big and thick and thousands of  
19 pages, he can tell me. If it's -- you know, he  
20 reviewed a hundred pages -- just a general sense.

21 CHAIRMAN BROWN: FPL?

22 MR. LITCHFIELD: I would join in  
23 Mr. Brownless' objection. Mr. Dewhurst was asked  
24 if he had reviewed the materials that staff  
25 identified for him. And he said, yes. And he

1 authenticated them. I'm not sure where we're going  
2 with this line.

3 CHAIRMAN BROWN: Mary Anne.

4 MR. MOYLE: Well --

5 MS. HELTON: I have to confess, I did not hear  
6 what Ms. Brownless said and Mr. Dewhurst's answers  
7 to that. I think I heard a little bit of  
8 Mr. Moyle's objections.

9 I also don't quite understand where Mr. Moyle  
10 is going with his request with respect to how many  
11 pages. I can look at this notebook right here and  
12 have -- I have flipped through many of these pages  
13 this week. And I can tell you, I have no idea how  
14 many pages are in this notebook. So, I'm not sure  
15 how that's relevant to anything.

16 CHAIRMAN BROWN: Okay. Objection -- objection  
17 sustained.

18 Please move along with your questions.

19 BY MR. MOYLE:

20 **Q Is -- are -- is FPL providing you an office**  
21 **now that you're retired?**

22 A I have a temporary office through the period  
23 of my support of this rate-case application, yes.

24 **Q And when you were asked for your business**  
25 **address, you gave 700 Universe Drive?**

1 A Universe --

2 Q So, is that currently --

3 A Universe Boulevard.

4 Q Universe Boulevard. Was that out of habit or  
5 is that because that's where you're conducting business?

6 A That's where that temporary office is.

7 Q Okay. And you're appearing today as an expert  
8 witness; is that right?

9 A I believe I'm both a witness of fact and an  
10 expert witness.

11 MS. BROWNLESS: Objection. With regard to  
12 expertise, I believe that that was ruled upon at  
13 the pre-hearing conference and that Mr. Moyle did  
14 not comply with the requirements of the pre-hearing  
15 order and, therefore, cannot inquire as to  
16 expertise.

17 He can ask questions about Mr. Dewhurst's  
18 education, training, experience, but he cannot ask  
19 questions that would apply only to a qualification  
20 of expert. For example, you can't ask, is he an  
21 expert or fact -- is this an opinion or a fact.  
22 That is basically a way to circumvent the  
23 pre-hearing officer's ruling on voir dire.

24 CHAIRMAN BROWN: Mr. Moyle, you may proceed  
25 with your additional questions at this point.

1 MR. MOYLE: Okay. Can I -- can I -- can I  
2 just make a record on this? Respectfully. The  
3 ruling was you can't voir dire. So, I can't say,  
4 well, how many times have you testified here --

5 CHAIRMAN BROWN: Sir, I know what the ruling  
6 was. That's why I'm allowing you to proceed.

7 MR. MOYLE: Okay. Well, if he's --

8 CHAIRMAN BROWN: Please proceed.

9 MR. MOYLE: With my -- with my proffer?

10 CHAIRMAN BROWN: With your --

11 MR. MOYLE: Can -- can I make a proffer,  
12 please?

13 (Inaudible speaker.)

14 MR. MOYLE: Oh -- oh. Sorry. I'm sorry.

15 CHAIRMAN BROWN: Ask -- I'm telling you --

16 MR. MOYLE: You're telling me --

17 CHAIRMAN BROWN: -- to go ahead with your  
18 questions.

19 MR. MOYLE: You're not ruling against me?

20 CHAIRMAN BROWN: No.

21 (Laughter.)

22 CHAIRMAN BROWN: So defensive.

23 MR. MOYLE: Sorry. Sorry.

24 MR. LITCHFIELD: Let's give the Chair another  
25 shot.

1 MR. MOYLE: My apologies. I -- I -- it's been  
2 a long day.

3 CHAIRMAN BROWN: Please proceed with your  
4 questions.

5 MR. MOYLE: Thank you.

6 BY MR. MOYLE:

7 Q I think the question was -- I think you  
8 answered it. You said you're appearing as both expert  
9 and as a fact witness; is that right?

10 A That's my belief, yes.

11 Q And you're not -- I take it your plans aren't  
12 to become, like, an ROE expert like Mr. Hevert; is that  
13 fair?

14 A That's correct.

15 Q Okay. This is just sort of an on-your-way-  
16 out-the-door, you're going to provide the testimony?

17 A I think it's a little more than that. I have  
18 been the CFO of this organization for a long time.

19 Q I don't mean any disrespect by that. I  
20 understand. But in terms of just -- you're not going  
21 into the professional witnessing business, correct?

22 MR. LITCHFIELD: Asked and answered.

23 A No.

24 Q Are you being compensated for your testimony?

25 A Yes, I'm being paid a dollar.

1 Q I'm sorry?

2 A I'm being paid a dollar.

3 Q A dollar?

4 A Yes.

5 Q It's a good thing you're not going into the  
6 expert-testimony business.

7 (Laughter.)

8 I do have some questions for you. Hopefully  
9 they will not take much time.

10 A couple of things. I think you said that you  
11 were providing some testimony with respect to risk. And  
12 on -- can I refer to you to Page 19, Line 7.

13 A Yes.

14 Q You say: FPL's generation mix exposes FPL and  
15 its investors to greater risk than the typical utility,  
16 primarily through its extensive utilization of nuclear  
17 power and natural gas; is that right?

18 A Yes, that's correct. This is in the context  
19 of an overall section that tries to summarize and put in  
20 perspective the -- what I call the overall risk profile  
21 for the organization. So, it's one element of the  
22 overall risk profile.

23 Q Okay. And -- and the risk with respect to  
24 natural gas -- I'm assuming that's an over-dependence or  
25 an over-reliance on natural gas for FPL as it relates to

1 **others coupled with potential volatility of that**  
2 **commodity price; is that fair?**

3 A No, that's not fair. I -- I disagree with the  
4 characterization of over-reliance. The mix that we have  
5 is extremely valuable for our customers. But like most  
6 things, it brings with it some other issues.

7 And in this case, it brings with it some risk  
8 issues, which certainly include exposure to the  
9 commodity price, but also because of our -- in part,  
10 because of our location, include issues associated with  
11 the supply of natural gas.

12 So, the mix is a good thing for customers  
13 because it's very low cost, but it does have some risks.

14 **Q Page 21, I think this was right underneath**  
15 **your correction. You corrected the word -- you said**  
16 **another -- never -- nonetheless, uncertainty remains.**

17 I want to ask you about the sentence that  
18 says, for example: It remains to be seen specifically  
19 how the U.S. Environmental Protection Agency's Clean  
20 Power Plan will be implemented in Florida and what  
21 impact, if any, it will have on FP&L; is that right?

22 A That's correct.

23 **Q And is -- I guess that's just the risks**  
24 **associated with uncertainty?**

25 A Well, specifically, what I'm referring to here

1 is that, while FPL, as an entity, is already on target  
2 to meet the state-average standard for the CO2 emissions  
3 in 2030, because the specific state rules of how the  
4 Clean Power Plan will be implemented, we don't yet know  
5 what the -- essentially what the requirement for FPL  
6 will be.

7 So, there is, inherently, some uncertainty  
8 and, hence, risk around that element, which, from an  
9 investor perspective, is important.

10 **Q Are you aware of any analysis that have**  
11 **been -- that's been done with respect to the proposed**  
12 **rule that came out related to the Clean Power Plan, that**  
13 **FPL looked at that? I know it's been put on hold, and**  
14 **it's pending before the Supreme Court presently, but are**  
15 **you aware of any analysis that looked at how it might**  
16 **impact the company?**

17 MR. LITCHFIELD: I'll object to the compound  
18 question and a little bit of testimony in there.  
19 If Counsel could rephrase and ask a simple  
20 question.

21 BY MR. MOYLE:

22 **Q Are -- are you aware of any studies or**  
23 **analysis that the company has done related to the Clean**  
24 **Power Plan and the rule that was put out and has, now,**  
25 **been stayed or is pending before the Supreme Court?**



1           A       Yes. We spent a great deal of time, both  
2 prior, when the rule was essentially in the draft stage,  
3 and when it was finalized, trying to understand what it  
4 meant, how it might be applied, what the variability in  
5 how it might be applied might mean for FPL.

6                    But because it's a federal rule that requires  
7 state implementation plans to be developed, and the  
8 parameters of those state implementation plans are not  
9 yet known, it's impossible to know precisely how it will  
10 affect FPL, hence, its customers and its investors. And  
11 that's why it's an element of the risk profile.

12           **Q       And in the rule -- I forget the numbers --**  
13 **111(d); is that right? The -- the rule that's been**  
14 **stayed -- do you have any familiar -- familiarity**  
15 **with --**

16           A       No, Mr. Moyle. We -- we're talking past --  
17 we're talking here about the Clean Power Plan.

18           **Q       I understand. Isn't there a rule associated**  
19 **with the Clean Power Plan?**

20           A       There is a -- yes, there is a rule for the  
21 Clean Power Plan. That rule, as I just said, requires  
22 implementation at the state level for state  
23 implementation plans.

24                    So, the federal rule has set targets that each  
25 of the states are required to meet, but the specific

1 form of implementation has yet to be determined by the  
2 individual states.

3 Q And -- and I guess I was trying to see if you  
4 understood that the rule -- that the federal rule is  
5 111(d). Do you have an understanding of that or no  
6 knowledge of it?

7 A Yes. Yes.

8 Q Yes, you have an understanding that that's the  
9 rule?

10 A That's the shorthand for the rule.

11 Q Okay. And isn't it true that FPL's analyses  
12 have suggested that FPL is going to be in pretty good  
13 shape under that rule?

14 A Yes and no. As I just said, FPL is already on  
15 target to meet that state standard for Florida in 2030.  
16 In fact, we may already be -- I'm not sure if it's this  
17 year or next year -- but already compliant with that  
18 standard.

19 But it is not necessarily the case that that  
20 state-average standard expressed in CO2-per-megawatt-  
21 hour will be applied uniformly to each entity or how it  
22 will be applied.

23 Q Okay.

24 A So, it's quite conceivable that we might still  
25 have to take additional actions, depending upon what

1 happens to other people in the state. Again, there is  
2 risk in that from an investor perspective.

3 **Q And you're talking about the Clean Power Plan**  
4 **here because the question is: Describe risk related to**  
5 **environmental risk. And you're pointing out some risk**  
6 **as a potential it could impact, you know, how people**  
7 **make financial judgments; is that fair?**

8 A Broadly speaking, for the sake of the hour,  
9 yes.

10 **Q Do you know, has FPL made any disclosures to**  
11 **suggest that FPL may benefit financially from the Clean**  
12 **Power Plan to the extent it provides for trading of**  
13 **credits?**

14 A The answer is I don't know. We've certainly  
15 made extensive disclosure. If you read the "K" or the  
16 "Q," you'll see a piece in there on the implementation,  
17 but fundamentally, what we say is what I just said,  
18 which is we don't yet know exactly how it will affect  
19 us.

20 **Q And do any of the internal analysis that you**  
21 **said have been done look at that question?**

22 A Yes, I think so. I'm -- the recollection is  
23 they did.

24 **Q Okay.**

25 A It's been a while since I looked at that.

1           Q     And again, given the lateness of the hour, do  
2     you know if they reach a conclusion that FPL will be, in  
3     effect, like a net donor position so that they would be  
4     in a position to help the state be in compliance, given  
5     the cleanness of their generation fleet?

6           A     Well, yes, to the extent -- but again, it  
7     comes back to how is the rule going to be implemented.  
8     To the extent that we are significantly below the state  
9     average -- and as I said, we already are on path to be  
10    in compliance with the 30 standard. Implicitly, we are  
11    helping out others in the state.

12                   Whether there is any compensation for that or  
13    whether we have to bear additional costs is what we  
14    don't know.

15                   CHAIRMAN BROWN: Mr. Moyle, would you -- would  
16    you mind if we take about a five-minute break?

17                   MR. MOYLE: Sure.

18                   CHAIRMAN BROWN: Okay. We'll take a five-  
19    minute break.

20                           (Brief recess from 9:21 p.m. to 9:26 p.m.)

21                   CHAIRMAN BROWN: Are we getting folks ready to  
22    reconvene?

23                   MR. MOYLE: Yes, and I -- I apologize, again,  
24    for my heading down the proffer. It is -- it's  
25    been a long day and it's getting late, but -- so,

1           anyway, thank you. Thank you.

2           CHAIRMAN BROWN: No problem.

3           MR. MOYLE: Okay. So, I'm going now?

4           CHAIRMAN BROWN: You're going.

5           MR. MOYLE: Okay.

6           CHAIRMAN BROWN: You can go.

7 BY MR. MOYLE:

8           Q     I think we were talking about the Clean Power  
9 Plan. And you had said in a general way that it was  
10 unclear with respect to -- I think you had said that,  
11 yes, FPL will be in a good position with the potential  
12 regulation, should it be affirmed, but there was  
13 uncertainty as to whether that good position would be  
14 able to be monetized or not with respect to credits for  
15 the state to come into compliance; is that right?

16          A     Well, I think my testimony speaks for itself.  
17 We've been through this, now, a couple of times.  
18 There -- the rule has to be implemented through a  
19 state-level implementation plan. And the way in which  
20 that might be implemented could be helpful for FPL's  
21 customers and its investors, or it could impose  
22 additional cost on them. We simply don't know.

23                   On the fundamental emission profile, yes, FPL  
24 is in great shape.

25           MR. MOYLE: Can I get a little help with three

1 exhibits?

2 CHAIRMAN BROWN: Absolutely.

3 Staff?

4 Mr. Moyle, we will be at 693. If you would  
5 like...

6 MR. MOYLE: 693 can be the utility comparison  
7 of nuclear power and percent and natural gas power.

8 MR. DONALDSON: We don't have those yet. So,  
9 one second, please.

10 (Brief pause.)

11 (Discussion off the record.)

12 CHAIRMAN BROWN: Okay. So, 693 is going to be  
13 marked as utility comparison percent nuclear power  
14 and natural -- percent natural gas power.

15 (Whereupon, Exhibit No. 693 was marked for  
16 identification.)

17 MR. MOYLE: That's right. And then the next  
18 one, the equity-ratio comparison -- 694.

19 CHAIRMAN BROWN: That will be marked as 694.

20 (Whereupon, Exhibit No. 694 was marked for  
21 identification.)

22 MR. MOYLE: And the 50-basis-point adder --

23 CHAIRMAN BROWN: That will be --

24 MR. MOYLE: -- will be 695.

25 CHAIRMAN BROWN: You got it.

1 (Whereupon, Exhibit No. 695 was marked for  
2 identification.)

3 CHAIRMAN BROWN: Mr. Dewhurst, you have copies  
4 of all three?

5 THE WITNESS: Yes, I do.

6 CHAIRMAN BROWN: Okay.

7 Mr. Moyle, please proceed when you -- if  
8 you're ready.

9 MR. MOYLE: Okay.

10 BY MR. MOYLE:

11 Q So, sir, 693 -- is this one of the answers to  
12 interrogatories that you sponsored?

13 A Yes, it is.

14 Q Okay. And on the -- on the last page, there's  
15 a -- there's a chart that shows the comparison -- well,  
16 why don't you just tell me -- this is your exhibit.  
17 What does this chart show?

18 A I'm sorry. You're saying it's my exhibit -- I  
19 don't believe it's my exhibit.

20 Q Well, did you sponsor this interrogatory  
21 response?

22 A It's a response to an interrogatory, is my  
23 understanding.

24 Q I -- I'm foreshadowing, but go ahead.

25 A I'm sorry. Your question?

1 Q What is this?

2 A It's a response to an interrogatory.

3 Q Can you tell me substantively what the -- what  
4 the last page of the exhibit is? Did you -- can you  
5 tell me or no?

6 A Yes.

7 Q If you have no idea -- you weren't involved in  
8 preparing it, you can tell me that, too.

9 A Yes, as you can see from reading the response,  
10 "Please see Attachment No. 1 for a summary table  
11 detailing the percentage of nuclear and natural gas  
12 capacity and actual generation of other identified IOUs  
13 that operate both fuels by power plants in the United  
14 States."

15 So, that's what the table that we produced in  
16 response to this request is.

17 Q Who's -- who's the highest natural gas --  
18 which company has the highest natural gas?

19 A If it's this particular selection -- which is  
20 the selection that's in one of my exhibits, just to be  
21 clear -- in terms of net generation, FPL does.

22 Q And -- and the next-closest utility is more  
23 than 10 percentage points away; is that right?

24 A In terms of current generation, yes, that --  
25 you have to be very careful with that, though, because



1 many of these other companies have significant coal  
2 generation. And this is for a period where coal and gas  
3 were frequently on the margin, meaning that, at one time  
4 or another, either fuel might be more economic. So, the  
5 numbers could swing around for some of the other  
6 companies quite significantly.

7 So, I think it's also important to look at the  
8 reported operating capacity, which is, of course, in a  
9 sense, potential to generate. And there are now several  
10 other companies that have significant natural gas  
11 capacity. A lot of other people have started to do over  
12 the last few years what we started to do many years ago.

13 **Q On the renewable, the net generation, it says**  
14 **.1 percent -- point- -- 0.1 percent; is that right?**

15 A Yes, I believe that's consistent with what's  
16 been discussed.

17 **Q And -- and that's one-tenth of 1 percent; is**  
18 **that right? Is that the same number or no?**

19 A I'm sorry. Is that the same number as what?

20 **Q As one-tenth of one percent.**

21 A Yes.

22 **Q Okay. And then, do you know how MidAmerican**  
23 **Energy is able to get 26.1 percent of renewable?**

24 A No, I don't. And that's -- this is -- the  
25 source for this -- the data are SNL company reports.

1 And frankly, that puzzles me. So, I think this -- this  
2 may not rep- -- simply represent the fuel mix of the  
3 operating utility, but I don't know that for sure. We  
4 pulled this from SNL in response to the interrogatory.

5 Q Okay. Let's move to 694. And this is another  
6 interrogatory that you sponsored and recently identified  
7 as something you're familiar with; is that right.

8 A Yes.

9 Q The question sought information related to  
10 metrics for major southeastern investor-owned utilities  
11 listed in the table. The first one was an authorized  
12 equity ratio based on investor sources; is that right?

13 A That's correct.

14 Q So, the last -- actually, it's the second-to-  
15 the last page in the exhibit. It says, southeast states  
16 authorized equity ratio. Is that current information  
17 that's on that chart?

18 A I don't know. Again, it was pulled from SNL  
19 Financial. I don't know the exact basis for each of  
20 these authorized numbers. So, I don't know whether they  
21 are -- what percent of investor sources or all sources.

22 It is, in this form, at least, not a  
23 particularly meaningful set of numbers because, of  
24 course, all these companies have different situations  
25 and different strategies and then, therefore, should

1 logically be expected to make different decisions about  
2 capital structure.

3 But we were provided it in response to the  
4 interrogatory.

5 **Q So, these represent all the southeastern**  
6 **states?**

7 A Well, what these represent are the companies  
8 that were in -- that are in the exhibits at the back of  
9 my testimony.

10 **Q Okay. And out of the companies that are**  
11 **listed, the highest equity -- equity ratio, belongs to**  
12 **whom?**

13 A In this particular group, to Florida Power &  
14 Light. Again, I'm not sure these are all on a  
15 consistent basis, but I would certainly hope that we  
16 would be, if not the top, among the top, for reasons of  
17 strategy and situation.

18 **Q And it's not just by a few percentage points,**  
19 **is it?**

20 A Well, if -- my teachers used to tell me the  
21 definition of a "few," I believe, is two or three. So,  
22 on that basis, it is a little bit more than a few.

23 **Q Because the next-closest one is 54 percent?**

24 A Yes. So, that differential, 5.6 percent -- my  
25 teacher would tell me that was -- met the definition of

1 "several."

2 **Q I went to school in Palm Beach County. Is**  
3 **that -- is that where you went to school?**

4 A I did not go to school in Palm Beach County.  
5 But let the record reflect that I am very fond of Palm  
6 Beach County.

7 (Laughter.)

8 **Q Okay. Thank you.**

9 All right. If I wanted to determine the  
10 authorized equity -- equity -- equity ratio for all the  
11 states in the southeast, I would be able to add these  
12 and divide by the number of states that are reporting  
13 equity -- equity ratios. Would that be the way to do  
14 that? Did your teacher -- is that right?

15 A I'm sorry, Mr. Moyle. You want to produce an  
16 arithmetic average of figures that may be on an  
17 inconsistent base and draw some conclusions from it?

18 **Q No, I just -- I just want to take -- if I was**  
19 **going to take the data on this information and add it up**  
20 **and divide by the number of states -- again, just in a**  
21 **broad picture -- that would give me the average**  
22 **authorized equity ratio, would it not?**

23 A Well, by definition, if you produce the  
24 average of a group, you're going to get the average of  
25 that group.

1 Q Yeah, do you do that mathematically by taking  
2 data for -- for a set number and then adding up the data  
3 for the set number, and then taking the sum of the  
4 numbers you've added and dividing by the number of  
5 entities that had data associated with them?

6 A To produce an arithmetic mean. But as I said,  
7 that's not a very --

8 Q That's all I needed was the yes. And thank  
9 you for answering it that way.

10 All right. Next exhibit. Were you  
11 responsible for this response to staff's fourth set of  
12 data requests, Interrogatory No. 133?

13 A Yes.

14 Q And this response addresses the request for  
15 the 50-basis-point adder or bonus; is that right?

16 A No. It responds to a question.

17 Q And the question is: Why is it the  
18 appropriate regulatory policy for FPL to be awarded --  
19 rewarded with a 50-basis-point ROE adder, considering  
20 FPL's fuel mix consists of approximately 70 percent  
21 natural gas, and is currently benefiting from low  
22 natural gas prices; is that right?

23 A That's the question, yes.

24 Q Okay. And as part of your response, a couple  
25 of things I wanted to ask you about. Down at the very

1 bottom, it says: FPL acknowledges that this is a  
2 question of policy for the Commission. Do you -- do you  
3 have an understanding with respect to how policy is set  
4 from a regulatory perspective in -- bad question.

5 Do you have an understanding that rules --  
6 that Chapter 120 provides that an agency that's going to  
7 put in place a policy that will have general  
8 applicability should be put forward with a rule?

9 A I don't know. This is not, of course, a  
10 proposal for a general policy.

11 Q This -- this adder should only apply to FP&L?

12 A What's in our request is specific to FPL.

13 Q So -- so, you wouldn't -- you wouldn't --  
14 you're not suggesting that it only -- it be applied  
15 to -- to others similarly situated?

16 A I'm sorry. Could you repeat that?

17 Q You're not suggesting that the policy decision  
18 that -- should it not be applied to other utilities who  
19 are similarly situated -- or should it be if they  
20 adopted your -- your recommendation?

21 A No, I'm not making any judgment one way or the  
22 other. This is a specific -- this is part of our  
23 overall application, this particular instance, because  
24 we think it is warranted by reasons of policy, and  
25 warranted by the customer-value delivery for FPL to its

1 customers. We think it's warranted in this specific  
2 situation.

3 I'm not saying anything about whether it might  
4 be or might not be applied in other situations.

5 **Q All right.**

6 A Although, I would certainly believe that the  
7 principle of linking ROE to customer-value delivery is a  
8 good one and has general applicability. But that's not  
9 what we're asking for here.

10 **Q The -- each hundred basis points in ROE is**  
11 **240 million; is that right?**

12 A Roughly speaking, the 50 basis points is a  
13 hundred -- translates to the 120 million of revenue  
14 requirement, yes.

15 **Q And can you give me a similar calculation with**  
16 **respect to percentage point of -- of equity ratio? So,**  
17 **right now, you're -- let's just call it 60. If -- if**  
18 **you dropped a hundred basis points on a capital**  
19 **structure -- what that translates to into dollars?**

20 A No, I can't because that requires some facts  
21 that we just don't know because we don't know what the  
22 consequence of weakening the balance sheet would be.  
23 So, there would be other negative consequences that  
24 would come, some of which would only come over time, as  
25 I describe in my testimony, so --

1           **Q**     But with respect to -- if I understand it, the  
2     higher the -- the amount of equity in the capital  
3     structure, the higher your revenue requirements are, is  
4     that right, in this case?

5           **A**     Other things equal, the way conventional  
6     ratemaking works, it appears that equity is more  
7     expensive than debt, even though we know that,  
8     economically, that is not necessarily the case.

9                     That's one of the challenges of ratemaking.  
10    You don't see the costs associated with incremental  
11    leverage directly through the ratemaking process on day  
12    one.

13           **Q**     So -- so, that was -- that was, yes, with  
14    respect to the ques- -- to the answer?

15           **A**     I think I had a yes in there originally.

16           **Q**     Okay.

17           **A**     But if I didn't, forgive me.

18           **Q**     All right. I want to take you to MD-3, your  
19    **exhibit.**

20           **A**     Which page?

21           **Q**     Hold on a second.

22                     It's Page 1 of 6.

23           **A**     I'm there.

24           **Q**     The first column shows the major southeastern  
25    **investor-owned utilities; is that right?**



1           A     Correct.

2           Q     And then the second column shows the  
3 authorized return on equity at mid-point; is that right?

4           A     That's correct. Those are the currently-valid  
5 authorized mid-points.

6           Q     Okay. Mr. Hevert, the expert -- you were here  
7 when he testified, right?

8           A     I was certainly physically present for most of  
9 the session; whether I was quite as mentally present as  
10 I was physically present, I don't know.

11          Q     Okay. I thought, in response to a question on  
12 redirect, he said that or suggested that states set ROE  
13 in kind of a -- maybe a wide variety of ways. And there  
14 may not be a lot of value in comparing states with  
15 respect to their ROE. Do you agree --

16          A     I don't --

17          Q     -- with that?

18          A     I don't know that that's what he said.

19          Q     Assume for the purposes of our conversation  
20 that's what he said or words to that effect.

21               MR. LITCHFIELD: I'll object to the question  
22 on that basis.

23               MR. MOYLE: Well, he's a witness -- he's an  
24 expert witness. I can ask him a hypothetical.

25               COMMISSIONER EDGAR: On what basis?

1 MR. LITCHFIELD: If Counsel could just ask a  
2 straight-up questions as opposed to asking him to  
3 assume a situation that the witness has just said  
4 he did not know that that was what was said or  
5 whether it was said.

6 COMMISSIONER EDGAR: Okay. Okay. Mr. Moyle,  
7 rephrase.

8 BY MR. MOYLE:

9 Q Assume -- assume -- well, let me ask you this:  
10 Is it your understanding that states use a wide variety  
11 of methods to come up with ROE or -- or are they  
12 generally pretty consistent with respect to determining  
13 ROEs? Or do you know?

14 A I don't think I know enough about the rate-  
15 setting process in other states.

16 Q So, with respect to -- you do know that, with  
17 respect to ROE, that you try to determine current market  
18 conditions, right, and expect -- investors' expectations  
19 of current market conditions?

20 A I would agree with that, with the following  
21 caveat: When I speak of current market conditions,  
22 which I do in several places in my testimony, it is  
23 important to recognize -- and people have different  
24 definitions here. But when I speak of it, I include not  
25 merely today's parameters, today's rates, but all

1 forward rates, all forward curves, as well as  
2 essentially all past information.

3 So, it's -- the entirety of knowledge that  
4 investors have at a given point in time constitutes the  
5 current state of the market. That's very important  
6 because that is the foundation for the forward-looking  
7 view of investor expectations with --

8 **Q Okay.**

9 A Which is the last part of your question.

10 **Q They --**

11 A So, with that caveat, yes, I agree.

12 **Q Authorized ROE that you have on this column --**  
13 **there are no dates associated with those ROEs as to when**  
14 **they were set, correct? Just yes, no, if you can.**

15 A Let me just check. I don't believe so. They  
16 are -- those that are in effect today. They may have  
17 been initiated at very different dates, but nonetheless,  
18 they are what investors see today for those specific  
19 instances.

20 **Q Right. So you would agree, all things being**  
21 **equal, that -- that an ROE set by a Commission, say a**  
22 **month ago, assuming they -- they followed an approach**  
23 **similar to Florida might be more instructive of current**  
24 **market conditions than an ROE that was set three or four**  
25 **years ago?**

1           A     It might or it might not. That's not the  
2     purpose --

3           **Q     Okay.**

4           A     -- of this particular chart.

5           **Q     Right. But I had just -- the question I was**  
6     **asking you was, assuming all other things being equal --**  
7     **which I know during our deposition -- during your**  
8     **deposition, we had some discussion about that.**

9                     But just assume, everything else is equal,  
10    simple question, with respect to determining current  
11    market conditions, wouldn't you agree an ROE set by a  
12    Commission a month ago would be more reflective of  
13    current market conditions than an ROE set by a company  
14    two years ago?

15          A     Yes, if it were the same Commission and the  
16    exact same set of circumstances, similar set of facts.

17          **Q     Would you read Footnote 4 into the record for**  
18     **me, please?**

19          A     Alabama Power has a weighted ROE range of 5.75  
20    percent to 6.21 percent ROE times equity ratio, which  
21    equates to a 12.78 percent to 13.8 percent ROE using an  
22    estimated equity ratio of 45 percent.

23          **Q     And -- and when they say, using an equity**  
24     **ratio of 45 percent, does that -- that means that the --**  
25     **the debt -- how much would the debt be?**

1           A       Presumably, on this basis, 55 percent.

2           **Q       Do you know how -- how -- how Wall Street**  
3 **views Alabama Power?**

4           A       Alabama Power specifically, no. Alabama  
5 Power, of course, is a part of the Southern Company. I  
6 have certainly some view on investor views of Southern  
7 Company, but not -- I don't know that I have on Alabama  
8 Power specifically.

9           **Q       Southern Company is generally viewed**  
10 **positively by Wall Street, is it not?**

11          A       That's an awfully big generalization.  
12 Obviously, Southern Company has had some pretty  
13 significant challenges of late.

14                   So, I would say to my friend Tom Fanning, the  
15 CEO, that a little bit of the -- the luster has come off  
16 the -- the rose, but -- generally speaking, I would say  
17 the Southern -- my personal opinion is Southern Company  
18 is a well-managed, effective company that does --  
19 albeit, not as well as FPL -- does some of the same  
20 things by focusing on customer-value delivery and, over  
21 time, has also had a good record -- track record of  
22 success in delivering value as a consequence to its  
23 shareholders. Again, not as well as we.

24                   MR. MOYLE: I -- I gave you a pretty big  
25 opening there with the Southern Company.

1 (Laughter.)

2 But I -- I also understand, you have retired.

3 So, I appreciate your time.

4 CHAIRMAN BROWN: Thank you, Mr. Moyle.

5 All right. Retail Federation?

6 MR. WRIGHT: We don't have any questions for

7 Mr. Dewhurst, Madam Chairman. Thank you.

8 CHAIRMAN BROWN: Thank you, Mr. Wright.

9 FEA. Mr. Jernigan?

10 MR. JERNIGAN: No questions. Thank you.

11 CHAIRMAN BROWN: Thank you.

12 Sierra Club has been excused.

13 Walmart?

14 MS. ROBERTS: No questions. Thank you.

15 CHAIRMAN BROWN: Thank you.

16 AARP has been excused.

17 Mr. Skop?

18 MR. SKOP: Yes, Madam Chair. One second,

19 please.

20 We have no questions, thank you.

21 CHAIRMAN BROWN: Thank you.

22 All right. So, we're back to OPC.

23 Mr. Rehwinkel, how many questions do you think

24 you have?

25 MR. REHWINKEL: Madam Chairman, I probably

1 have 15 minutes.

2 CHAIRMAN BROWN: 50 minutes?

3 MR. RAPPOLT: 15 minutes.

4 CHAIRMAN BROWN: 15 -- 15 minutes or 15  
5 questions?

6 MR. REHWINKEL: 1-5, 1-5 minutes.

7 CHAIRMAN BROWN: Hospitals?

8 MR. SUNDBACK: Madam Chair, we probably have  
9 45 minutes or so.

10 CHAIRMAN BROWN: Really.

11 (Laughter.)

12 MR. SUNDBACK: We -- we'll do our best to  
13 streamline.

14 MR. DONALDSON: I'm sorry. How many questions  
15 does he have? Two minutes?

16 CHAIRMAN BROWN: Weighing -- I'm weighing it  
17 right now.

18 MR. SUNDBACK: We're -- we're, you know --  
19 we're, obviously, anxious to have the cooperation  
20 of the witness to move through it as quickly as  
21 possible.

22 CHAIRMAN BROWN: Okay. Well, I guess we shall  
23 proceed.

24 Mr. Rehwinkel, you have the floor.

25 MR. REHWINKEL: Thank you, Madam Chairman.

1 And I will try to streamline as well.

2 EXAMINATION

3 BY MR. REHWINKEL:

4 Q Good evening, Mr. Dewhurst.

5 A Good evening.

6 Q You told Mr. Moyle that you were paying --  
7 being paid a dollar for your testimony. Does that  
8 cover --

9 MR. LITCHFIELD: I object. He didn't say he  
10 was being paid a dollar for his testimony,  
11 Mr. Rehwinkel.

12 CHAIRMAN BROWN: Mr. Rehwinkel, you want to --

13 MR. REHWINKEL: Yeah, let me -- I was really  
14 trying to get to a broader question there.

15 BY MR. REHWINKEL:

16 Q You -- you said you were being paid a dollar  
17 for your services in this docket; is that --

18 A Fundamentally, yes. I agreed, as part of my  
19 retirement, to stay on and be a part of the team since I  
20 was so much a part of the preparation of this case.

21 Q So, my question was -- is, that covers  
22 everything: your testimony, your time, your presence  
23 here, all your services that are related to this docket.

24 A Yes. Fundamentally, it's simply to give us a  
25 vehicle so that we have a confidentiality agreement.



1 Q I understand.

2 Let me ask you if the -- the 11.0 ROE that  
3 Mr. Hevert testifies to is granted by this Commission  
4 and included in a final order, would you agree that, to  
5 the extent the Commission determined that it was your  
6 required costs of equity capital or that -- that would  
7 be -- that ROE would be cost base?

8 A Yes.

9 Q Okay. And if FPL is awarded that 11.0 ROE by  
10 the Commission and, then, further awarded the adder, as  
11 you call it, 50 basis points, would you agree that that  
12 adder would be, then, a non-cost-base return on equity?

13 A Yes, absolutely.

14 Q Okay. And -- but nevertheless, your  
15 authorized return on equity, as you've requested it in  
16 this case, would be, on a combined basis, 11.5 percent;  
17 is that correct?

18 A That's correct. That's what we are proposing.

19 Q Okay. And there would be no difference in the  
20 taxability of the revenues that you earned associated  
21 with that 11.5 percent, assuming you earned and  
22 reported, on a Commission-adjusted basis, 11.5 percent  
23 return; is that right?

24 A I'm sorry. You said with the taxability?

25 Q Yes.

1           A     No. I mean, the revenues that would be  
2 derived from the rates that would be set on 11.5 percent  
3 would all be -- flow through taxes in the normal way.

4           **Q     Okay. I mean, there's -- my question is:**  
5 **there is no difference in the taxability of the cost-**  
6 **base piece and a non-cost-base piece; is that right?**

7           A     That's correct.

8           **Q     Okay.**

9           A     Because ultimately that's only used in setting  
10 the revenue requirement, hence, establishing the rates  
11 which we, then, collect every time we deliver our very-  
12 valuable service to our customers.

13          **Q     Okay. Now, you've testified in your direct**  
14 **testimony about the investors in FPL; is that right?**

15          A     I do. If you could give me a particular --

16          **Q     Right.**

17          A     -- reference, that might help.

18          **Q     I think you talk about aligning the -- the**  
19 **interests of investors with those of customers. I'm**  
20 **doing that from --**

21          A     I think you may be referring to the concept of  
22 the virtuous circle that, if we start with customer-  
23 value proposition, we have -- we put ourselves in the  
24 best position to get constructive regulatory outcomes,  
25 which, in turn, will provide the financial resources,

1 which do two things; provide our investors an  
2 appropriate return on the capital they've committed, and  
3 give us the resources to reinvest in improving the  
4 customer-value position. That's the concept. That's  
5 been our strategy for many, many years.

6 **Q Okay. And too -- FPL's investors are NextEra;**  
7 **is that right?**

8 A Yes and no. The direct equity ownership is a  
9 hundred percent NextEra. FPL has many other investors.  
10 There are investors in all the different debt  
11 instruments. And of course, indirectly, there are many  
12 shareholders out there who have an interest in FPL  
13 because they hold the shares of NextEra, the publicly-  
14 traded parent.

15 **Q Okay. Now, the investors that would benefit**  
16 **from the ROE adder that you ask for or you testify for**  
17 **are the equity investors, correct?**

18 A Yes, definitely. There would be an indirect  
19 impact on fixed-income investors as well and as much  
20 as -- assuming, other things equal, that the cash-flow  
21 profile was slightly better, yes.

22 **Q Okay. Now, NextEra -- well, for -- in -- in**  
23 **1984, FPL created a holding company called FPL Group; is**  
24 **that right?**

25 A I don't recall the dates. Subject to check,

1 that sounds about right. It was -- I thought it was a  
2 little earlier than that, but early to mid-eighties,  
3 yes.

4 Q Okay. And the FPL Group, in 2010, was renamed  
5 NextEra; is that correct?

6 A That's correct.

7 Q Okay. So, FPL created their parent, in  
8 essence; is that right?

9 A No, I don't believe that's the case. I  
10 believe the -- well, I should be careful. I'm not sure  
11 exactly how the holding company was formed, but it was  
12 essentially formed from the assets of the shareholders  
13 of FPL.

14 Q Okay. If FPL was required by this Commission  
15 to reduce its equity ratio from 59.6 to 58.6, as a  
16 result of some regulatory edict, FPL would not have to  
17 issue debt to replace that increment of equity from 59.6  
18 to 58.6; is that correct?

19 A No, that's not correct. If -- a little brief  
20 explanation. We had, for a long time, managed to an  
21 effective capital structure that's around that  
22 60-percent equity level.

23 Given that the cash flows of the business  
24 fluctuate, that means we are periodically dividend-ing  
25 up to the parent or infusing equity back down from the

1 parent to maintain that capital structure intact. Now,  
2 it moves around a little bit.

3 But to the extent that you set a new target  
4 that is no longer 59.6 percent -- excuse me -- on  
5 average -- but now, 58.6 percent, that will mean that,  
6 over time -- perhaps, not on day one -- but over time,  
7 there will be more debt and less equity in the capital  
8 structure.

9 Q Okay. Let me ask my question this way --  
10 because that's not really what I was asking. And  
11 perhaps I didn't ask it precisely.

12 Let's say that the Commission orders you, over  
13 a two-year period, to reduce your equity ratio from 59.6  
14 to 58.6, or one percentage point -- are you following me  
15 so far?

16 A Okay.

17 Q Over that two-year period, FPL would not be  
18 required, nor would NextEra -- nor FPL would not be  
19 required to go to the market and issue debt to replace  
20 that increment of equity to make the equity ratio 58.6  
21 and -- whatever the complement is. Is that right?

22 A No, I fundamentally disagree with that.

23 Q In -- in that two-year period is -- is my  
24 question.

25 A No, again, I fundamentally disagree with that.

1 Now, you're giving me a -- one of these hypotheticals,  
2 but we've got a real business. And during those two  
3 years, we are going to be going out to the market to  
4 meet our regular financing needs.

5 And if it's, now, 58.6 instead of 59.6, then  
6 we're going to be issuing more debt than we otherwise  
7 would have done. So, no, I don't think I agree with  
8 you.

9 **Q So, solely for that increment, you would go to**  
10 **the market and issue bonds just to replace that? And I**  
11 **mean solely, for that reason only.**

12 A And that's where I have trouble because that  
13 hypothetical cannot exist in the real world. We have a  
14 real business. And over two years, all kinds of things  
15 happen. We have a business that we have to run.

16 **Q Okay. So, what's the smallest debt issue that**  
17 **FPL went to the market with in your tenure with FPL?**

18 A I would have to go back and look. Typically,  
19 we will not go to the market until we're at the 250- or  
20 300-million level. That -- that figure has really grown  
21 over time as the business has gotten bigger.

22 Generally speaking, you get, you know, more  
23 leverage with bigger issues, but it depends upon market  
24 conditions.

25 **Q Would you agree that -- well, first of all,**

1 **did -- I'll wait and ask this on -- I want to ask you a**  
2 **question about an exhibit in Mr. O'Donnell's testimony.**

3 And I'm not trying to ask you about your rebuttal  
4 testimony. But do you recall him having an exhibit  
5 that -- that showed a...

6 MR. LITCHFIELD: Well, while Mr. Rehwinkel is  
7 pausing, let me just object. I don't see the  
8 relevance. This is not within the scope of  
9 Mr. Dewhurst's testimony to be asking him about  
10 another witness' testimony.

11 CHAIRMAN BROWN: Let's just wait and see what  
12 the question is.

13 BY MR. REHWINKEL:

14 Q Yeah, the -- I -- there's a Chart 1 in  
15 Mr. O'Donnell's testimony that has sort of a dot-matrix  
16 chart that shows equity-ratio data points. And it has a  
17 line at 59.6. And it shows all the dots for allowed  
18 equity ratios in other states all below that line. Do  
19 you recall that chart?

20 A I honestly don't, offhand. And it -- with a  
21 chart like that, you've got to be very careful which  
22 companies are on the chart and what you're using it for,  
23 but --

24 MR. REHWINKEL: I was trying to avoid doing  
25 this, Madam Chairman, but I --

1 THE WITNESS: I think I have to see it.

2 MR. REHWINKEL: I have an exhibit to be pass  
3 out.

4 CHAIRMAN BROWN: Okay. We will be labeling  
5 that as six -- as 696.

6 MR. REHWINKEL: And I -- I am very close to  
7 the end after this. I just have a few more.

8 CHAIRMAN BROWN: Okay.

9 MR. REHWINKEL: I'm going to give -- I'm going  
10 to give a second one, in case I need it. There are  
11 two exhibits.

12 CHAIRMAN BROWN: Okay. I didn't mean label --  
13 we'll be numbering it 696.

14 MR. REHWINKEL: Okay.

15 (Whereupon, Exhibit No. 696 was marked for  
16 identification.)

17 MR. REHWINKEL: So, 696 is -- is Chart 1,  
18 Page 19 from O'Donnell testimony.

19 CHAIRMAN BROWN: Okay. We will label that as  
20 such.

21 MR. LITCHFIELD: And I assume Counsel will be  
22 able to lay a foundation for use of this exhibit in  
23 connection with Mr. Dewhurst's direct testimony.

24 CHAIRMAN BROWN: I'm waiting for it.

25 MR. REHWINKEL: Yes.



1 BY MR. REHWINKEL:

2 Q So, Mr. Dewhurst, do you have the document  
3 with you --

4 A I do.

5 Q -- that's 696?

6 MR. DONALDSON: However, Mr. Rehwinkel, if  
7 you'll wait a second -- we don't have it yet.

8 MR. REHWINKEL: Okay. I was trying to lay the  
9 foundation before -- while we were doing this.

10 CHAIRMAN BROWN: Mr. Dewhurst, you have a copy  
11 of it right in front of you?

12 THE WITNESS: I do.

13 CHAIRMAN BROWN: Okay. Thank you.

14 BY MR. REHWINKEL:

15 Q Mr. Dewhurst, on Pages 22 through 25 of your  
16 testimony, you testify about FPL's capital structure,  
17 correct?

18 A That's correct.

19 Q And on Page 25, Lines 3 through 12, if I could  
20 get you to turn to those page -- that page, you talk  
21 about the resulting weighted average cost of capital  
22 being significantly below the average of approved for  
23 U.S. electric utilities for ratemaking purposes; is that  
24 correct?

25 A That's correct, despite having a higher-than-

1 average equity ratio.

2 MR. REHWINKEL: Right. So, Madam Chairman, my  
3 questions on this are based on the facts. And I  
4 want to ask Mr. Dewhurst if he agrees with the  
5 facts that are shown in the exhibit that I've  
6 presented to you. I believe there is -- that --  
7 that I've related to his direct testimony.

8 MR. LITCHFIELD: Madam Chair, I don't know how  
9 Counsel can ask the witness, who did not recall  
10 this chart through recent memory, to now verify the  
11 facts to which Mr. O'Donnell is testifying to in  
12 realtime this evening.

13 CHAIRMAN BROWN: I think it's a little bit of  
14 a stretch, Mr. Rehwinkel.

15 MR. REHWINKEL: Well, I could ask him if he  
16 now recognizes it.

17 MR. LITCHFIELD: Well, he may recognize it.  
18 He still can't verify the facts that underlie this  
19 chart in Witness O'Donnell's testimony.

20 MR. REHWINKEL: If he -- if he doesn't agree  
21 with them, that's fine. I'll move on.

22 CHAIRMAN BROWN: I'll allow the question.

23 BY MR. REHWINKEL:

24 Q Do you -- do you agree -- do you have any --  
25 take any issue with -- with the factual presentation in

1     **that chart?**

2           A     Yes, I do. I think --

3           **Q     Okay. Then I will withdraw the question.**

4                   (Laughter.)

5           MR. LITCHFIELD: I object -- I object to  
6           withdrawing the question. I'm just kidding.

7     BY MR. REHWINKEL:

8           **Q     Just one last series of questions on the storm**  
9     **mechanism. Mr. Dewhurst, you would agree with me that**  
10    **the storm mechanism, as you presented it, was intended**  
11    **by you and the company that you represent to be limited**  
12    **to named tropical storms; is that correct?**

13           A     That's correct.

14           **Q     And you would also agree with me that the**  
15    **mechanism that you have proposed would allow intervenors**  
16    **to challenge the prudence of storm-restoration costs,**  
17    **but not for the intervenors to raise non-storm-**  
18    **restoration offsets or earnings issues to reduce any**  
19    **prudent recovery of storm-restoration costs; is that**  
20    **fair?**

21           A     Yes. Fundamentally, we believe that, while  
22    prudence is always an issue, it should be separated from  
23    consideration of where we are in our earnings band  
24    so that we -- both for reasons of -- for equity fairness  
25    and so that we don't get into perpetual rate cases.



1 compiled a collection of documents -- at this hour,  
2 we're probably not going to move all of them into  
3 evidence. We'd ask that the rule that was observed  
4 for Mr. Hevert also apply with regard to  
5 Mr. Dewhurst.

6 CHAIRMAN BROWN: Absolutely.

7 MR. SUNDBACK: Okay. Thank you.

8 CHAIRMAN BROWN: And I'll just mark them as  
9 you -- as you go along.

10 MR. SUNDBACK: Thank you. And the first  
11 document is just a copy of D7 anyway. It's already  
12 in the MFR. So, it doesn't --

13 CHAIRMAN BROWN: So, you don't want it marked?

14 MR. SUNDBACK: No, I don't believe so. It's  
15 just an easy reference tool.

16 THE WITNESS: I don't -- I need some  
17 instruction.

18 Madam Chair?

19 CHAIRMAN BROWN: Yes -- yes, sir.

20 THE WITNESS: I need some instruction on the  
21 protocol here. I don't want to mess things up.

22 CHAIRMAN BROWN: Mr. --

23 MR. LITCHFIELD: Mr. Dewhurst, you simply  
24 place the exhibits on the table and pull them up  
25 one at a time as you're asked to refer to them.

1 THE WITNESS: Face up? Face down?

2 MR. SUNDBACK: Face up is fine for us.

3 MR. LITCHFIELD: Face up is fine? Okay.

4 MR. SUNDBACK: They are more enlightening that  
5 way.

6 CHAIRMAN BROWN: You may proceed.

7 MR. SUNDBACK: Thank you, Madam Chair.

8 BY MR. SUNDBACK:

9 Q You're generally aware FPL is proposing a  
10 multi-year case stay-out proposal in this case, right?

11 A That's a fair characterization, yes.

12 Q And to move things along, you've held, during  
13 your career, roles both with FPL and NextEra; is that  
14 correct?

15 A Correct.

16 Q Okay. Can we use the acronym N-E-E or "nee,"  
17 a phonetic, for NextEra Energy?

18 A That's fine by me.

19 Q Okay. You're generally still pretty current  
20 with financial trends; is that a fair conclusion?

21 A It depends. It depends what they are.

22 Q Okay. Well, let's -- let's work with that.  
23 And we'll -- we'll find out the parameters as we go  
24 along.

25 Could you look at your direct, Page 26,

1 Lines 21 through 23. There, you use the phrase "fairly  
2 compensating equity investors." Do you see that?

3 A I see that, yes.

4 Q That's not a standard applicable just to FPL,  
5 right?

6 A No.

7 Q Okay. And you use that phrase in a couple of  
8 different places in your testimony. Would you accept  
9 that -- that, subject to check?

10 A Yes.

11 Q You -- you would agree that incentives matter,  
12 right?

13 A Yes. I think I have said that myself,  
14 sometimes.

15 Q Yes. And in your opinion, the adequacy of the  
16 compensation to FPL should be an important  
17 consideration, not just for you and the company, but  
18 also intervenors, the Commission, customers, and  
19 investors, right?

20 A Whoa. Whoa. Whoa. Whoa. I need that  
21 slower.

22 Q Sure. Sure. I'm sorry.

23 In your opinion, the ad- -- ad- -- the  
24 adequacy of compensation to FPL should be an important  
25 consideration not only for you and the company, but for

1 the intervenors, the Commission, FPL's customers, and  
2 its investors. Is that -- is that something you --

3 A Yes.

4 Q -- prescribe to?

5 A Yes, if, by compensation, you're using the  
6 same sense that I'm using it here.

7 Q Okay. You would agree that, when we're  
8 assessing whether equity investors are being fairly  
9 compensated, we want to look at all of the material  
10 aspects of compensation, correct?

11 A As a general statement, that seems reasonable,  
12 but I don't know exactly what you mean by "all the  
13 different aspects."

14 Q Okay. Well, maybe -- that's another one where  
15 we'll -- we'll check on the parameters as we go along.

16 A Okay.

17 Q Generally, we want to be using the best  
18 available information in assessing whether they are  
19 being adequately compensated, the investors; is that  
20 fair?

21 A Yes, subject to practicality and time and the  
22 cost of acquiring data, we can churn until we're blue in  
23 the face.

24 Q Okay. And -- and you would agree, just as  
25 Mr. Hevert -- let's leave Mr. Hevert out of it.



1           Would you agree that setting the proper level  
2 of compensation for equity investors involves an element  
3 of judgment?

4           A     Absolutely, yes.

5           Q     And you offer, in your testimony, judgments  
6 and opinions, correct?

7           A     Yes, I do.

8           Q     And you're asking the Commission, at least in  
9 part, to rely on your judgments and conclusions or -- or  
10 to shape -- to take those into account in -- in their  
11 decision; is that correct?

12          A     Yes, I believe my views have something to  
13 contribute.

14          Q     Okay. In your roles, both at FPL and NEE, you  
15 worked regularly in reviewing materials that served as  
16 the basis for investor presentations; is that correct?

17          A     Yes, that's fair.

18          Q     Okay. And similarly, you reviewed pres- --  
19 the contents of materials, for instance, filed with the  
20 SEC and in periodic reports.

21          A     Yes.

22          Q     Okay. Just -- just so I'm on the same page,  
23 generally, to merit discussion in investor  
24 presentations, an item should be material from the  
25 enterprise's financial circum- -- perspective of the

1 **enterprise's financial circumstances; is that correct?**

2 A Generally speaking, yes.

3 Q Okay. Let's look at your direct, Page 6,  
4 **Line 17 through 20, if we could, please.**

5 CHAIRMAN BROWN: That's Page 6, Lines 17  
6 through 20?

7 MR. SUNDBACK: Yes, ma'am.

8 BY MR. SUNDBACK:

9 Q You'll see two bullet points there. And they  
10 refer -- one refers to adequate liquidity, and the other  
11 to competitive returns. Do you see that set of bullet  
12 points?

13 A Yes, I do.

14 Q Okay. Can there be circumstances where there  
15 is a tension between those two considerations?

16 A I -- I need a little more help with what  
17 exactly you're thinking of when you say "tensions."

18 Q Okay. So, competitive returns to investors  
19 might take the form of dividends, right, in part?

20 A Dividends would be part of the return to  
21 investor -- to the equity side of the investor base,  
22 yes.

23 Q And -- and if you paid out too many dividends,  
24 you might impair the bullet point before that, the  
25 **sufficient liquidity; is that fair?**

1           A     Conceivably it could happen.

2           Q     Okay. Now, you -- you had discussed with  
3     **Mr. Rehwinkel the equity of FPL being held by NextEra**  
4     **Energy. When -- when we're measuring and when we're**  
5     **using market-base measures of capital costs, we're --**  
6     **we're looking at publicly-traded equity, right?**

7           A     Could you repeat that, please?

8           Q     When we're looking at market-based measures of  
9     **capital costs, we're looking at publicly-traded entity**  
10    **to get valuations and various metrics; is that fair?**

11          A     Broadly speaking, yes.

12          Q     Okay. Thank you.

13                     Let's look at Page 25, Line 18 of your  
14    testimony. There -- there you reference your knowledge  
15    of investor perceptions. Do you see that?

16          A     My direct knowledge of investor perceptions,  
17    yes.

18          Q     And you're speaking of investors who hold  
19    **publicly-traded securities, is that right, in that**  
20    **passage?**

21          A     Yes, as well as investors who hold non-  
22    publicly-traded securities.

23          Q     Fair -- fair enough. You're not just  
24    **limiting your -- your direct knowledge to information**  
25    **about NEE.**

1           A     Oh, no.  If that's where you're going,  
2     absolutely not.

3           **Q     Yeah, I'm --**

4           A     I'm talking about investors in NextEra Energy  
5     and in fixed-income instruments.

6           **Q     I apologize for not having a better question**  
7     **the first time around.**

8           A     Okay.  Let's go back to D7 for a minute, if we  
9     could, please.  That's in the top of your pile.

10          A     Okay.

11          **Q     And on Line 9, you would agree with me that**  
12     **the dividends being shown there are NextEra Energy**  
13     **dividends from 2011 to 2015; is that right?**

14          A     That looks correct, yes.

15          **Q     Okay.  Would you accept, subject to check,**  
16     **that the payout ratio between the earnings shown on**  
17     **Line 11 and the dividends on Line 9 sort of bounced**  
18     **around between 48 percent as a low and 59 percent as a**  
19     **high?**

20          A     Subject to check, that sounds about right.

21                 MR. SUNDBACK:  Okay.  Hopefully, the next  
22     document in your pile, your fine pile -- oh, you  
23     can skip -- you can skip the next document in your  
24     pile, which was a deposition excerpt.

25                 CHAIRMAN BROWN:  Okay.

1 MR. SUNDBACK: Okay. And you can skip the  
2 next document in your pile, which was MFR  
3 Schedule D2.

4 CHAIRMAN BROWN: Okay.

5 MR. SUNDBACK: We're really flying.

6 Let's go to the third -- third -- fourth  
7 document, which is an excerpt from a NextEra  
8 Energy, November 8th through 11th, 2015, investor  
9 presentation. If we could --

10 CHAIRMAN BROWN: Do we want that marked?

11 MR. SUNDBACK: Yes, if we could, please.

12 CHAIRMAN BROWN: 697.

13 MR. SUNDBACK: Thank you.

14 CHAIRMAN BROWN: And the title?

15 MR. SUNDBACK: The title is "excerpt from  
16 NextEra Energy November 8th through 11th, 2015,  
17 investor presentation."

18 CHAIRMAN BROWN: Okay.

19 (Whereupon, Exhibit No. 697 was marked for  
20 identification.)

21 CHAIRMAN BROWN: Mr. Dewhurst, do you have  
22 that in front of you?

23 THE WITNESS: I do. Thank you.

24 CHAIRMAN BROWN: Okay. Please proceed.

25 MR. SUNDBACK: Okay. Thank you.

1 BY MR. SUNDBACK:

2 Q Okay. Let's just, in the interest of moving  
3 things along, skip to the last page, if we could.  
4 There, you'll see a couple of bars in the chart. Do you  
5 see that?

6 A Yes. Can I just authenticate the document  
7 first?

8 Q Oh, yes. Yes, certainly.

9 A Probably would be good. This appears to be a  
10 very small subset, which may or may not be relevant, of  
11 a presentation that we -- and when I say "we," the  
12 senior-management team -- collectively made to investors  
13 at the EEI conference last November.

14 Q Yes.

15 A I do recognize it.

16 Q Okay. Thank you.

17 And the 3-0-8, the \$3.08 shown in the lower  
18 bar for 2015-E matches the \$3.08-figure off of  
19 Schedule D7 for 2015; does it not?

20 A Yes, it does.

21 Q Okay. And the 2018 estimated range is between  
22 \$4.30 and \$4.60; is that correct?

23 A That's correct.

24 Q Okay. So, the increment by 2018 could be a  
25 \$1.22 to \$1.52; is that right?

1 A By the math, yes, that's correct.

2 MR. SUNDBACK: Let's go to your next document,  
3 please, which is an excerpt from NextEra Energy's  
4 2015 SEC Form 10K.

5 And we'd ask that it be assigned the next  
6 available exhibit number.

7 CHAIRMAN BROWN: 698, it will be assigned.

8 MR. SUNDBACK: Thank you, Madam Chair.

9 (Whereupon, Exhibit No. 698 was marked for  
10 identification.)

11 CHAIRMAN BROWN: Mr. Dewhurst, do you have a  
12 copy of that, the 10K?

13 THE WITNESS: This is from a 10K?

14 CHAIRMAN BROWN: Yes.

15 THE WITNESS: 690 --

16 CHAIRMAN BROWN: -- 8.

17 THE WITNESS: Thank you.

18 BY MR. SUNDBACK:

19 Q Mr. Dewhurst, would you tell me when you're at  
20 the last page of this exhibit?

21 A I am there. This appears to be, again, an  
22 incomplete excerpt from a 10K.

23 Q That's -- that's correct. I thought that we  
24 could spare ourselves some of the agony, given the hour,  
25 but if you would like a full copy, which we downloaded

1     **from your web- -- from FPL's -- or NextEra's website,**  
2     **we'll be happy to provide it.**

3             CHAIRMAN BROWN:   Mr. Litchfield?

4             MR. LITCHFIELD:   Why don't we just give the  
5     witness a minute.   Since he -- he's turning these  
6     over almost in realtime.   I think it's fair for him  
7     to take a minute to --

8             CHAIRMAN BROWN:   Absolutely.

9             MR. LITCHFIELD:   -- familiarize himself with  
10    it.

11            CHAIRMAN BROWN:   Mr. Dewhurst, take as long as  
12    you need.

13            THE WITNESS:   Well, I recognize document, I  
14    think.   Let me make sure.

15            My point, simply, on noting that it's an  
16    excerpt is the pieces that are left out may or may  
17    not be important depending upon the nature of the  
18    questions that are about to be asked.

19            CHAIRMAN BROWN:   Go ahead.

20            MR. SUNDBACK:   Thank -- thank you, Madam  
21    Chair.

22    BY MR. SUNDBACK:

23            **Q     All right, sir.   Well, if you're on the last**  
24    **page, let's look at the bottom line or the second-to-**  
25    **bottom line.   You'll see there is a weighted average**



1 number of common shares outstanding listed. Do you see  
2 that?

3 A Yes.

4 Q And for 2015, that's 450 million basic or 454  
5 diluted. Do you see that?

6 A Yes. It's increasing over time as we've  
7 issued equity, yes.

8 Q Okay. And presumably, it will increase again  
9 in 2017, correct?

10 A I would expect it will, yes.

11 Q Okay. Let's just work with the 2015 number  
12 for simplicity's sake. If the \$1.22 increase in common-  
13 share dividends that we just looked at was spread over  
14 200 and -- I'm sorry -- 450 shares, that would be  
15 another \$554 million a year in dividends. Would you  
16 accept that, subject to check?

17 A Subject to check, yes. It is certainly true  
18 that making our dividend policy more consistent with  
19 other companies is going to resolve -- going to need  
20 additional cash.

21 Q And at \$1.52, the increase across 450 shares  
22 would be about 690 million a year, subject to check.

23 A Subject to check on the math, yes.

24 Q Okay.

25 A That will, in fact, increase our need for

1 financing in future years, external financing.

2 Q Uh-huh. Okay.

3 Let's look at your direct testimony, Page 8,  
4 Line 17 through 18, please.

5 A 17 through 18, yes.

6 Q Yes, sir. Now, on Page -- you refer to other  
7 financially-strong utilities there, right?

8 A Could you give me the line item -- or the  
9 line? Excuse me.

10 Q It's Line 18, but actually, the sentence, in  
11 fairness, starts on Line 16. In the course of the  
12 sentence, you refer to other financially-strong  
13 utilities, right?

14 A I'm sorry. I must be on the wrong --

15 CHAIRMAN BROWN: Page?

16 THE WITNESS: Can we start again with a page?

17 BY MR. SUNDBACK:

18 Q Yeah, well maybe I'm on the wrong page at this  
19 hour. Page 8.

20 A Page 8. I'm sorry.

21 Q Eight.

22 A I heard 18.

23 Q I'm sorry.

24 CHAIRMAN BROWN: Page 8?

25 MR. SUNDBACK: Eight, Line 17 and 18.

1 CHAIRMAN BROWN: Okay.

2 BY MR. SUNDBACK:

3 Q You use -- you use the term "other  
4 financially-strong utilities." Do you see that?

5 A Yes, I do. Okay. I'm with you now.

6 Q Okay. And then on Page 17, Lines 9 through  
7 12, you direct us to -- or you reference Witness  
8 Hevert's market-based model analyses, right?

9 A In talking about the adequacy of an 11-percent  
10 ROE, yes.

11 Q Yes. You -- you recall, during your  
12 deposition, you were asked whether you were familiar  
13 with utilities that would be characterized as  
14 financially strong? Do you recall that?

15 A I recall you citing a number of examples of  
16 companies. If that's the place that you're referring  
17 to, yes, I vaguely recall that piece.

18 Q Well, actually, didn't -- didn't you say that  
19 you were generally -- when you were asked whether you  
20 were familiar with utilities that could be characterized  
21 as financially strong, you said, generally, yes, that's  
22 fair.

23 A I will accept that, you know -- the deposition  
24 is what it is, but that -- yes, I think that's right.  
25 More the specifics of individual companies, I guess, is

1 the distinction I'm trying to draw.

2 Q Well, let -- let's look at Page 22, Lines 12  
3 through 14. There -- there, you specifically refer to  
4 utilities including those in FPL Witness -- Witness  
5 Hevert's proxy group, right?

6 A Yes.

7 Q Okay. Now, do you --

8 A And the basis for that statement, just so  
9 you're clear, is the -- his proxy group is obviously a  
10 subset of the overall industry. And my assessment of  
11 risk is relative to the overall industry. So, by  
12 inference, it includes his sub- -- his proxy group.

13 Q Well, let's -- we've -- we've bypassed another  
14 document. So, if you could, flip over the transcript  
15 excerpts from the deposition and go to courtesy copy of  
16 RBH-10, if we could.

17 CHAIRMAN BROWN: Which does not need to be  
18 marked.

19 MR. SUNDBACK: Thank you.

20 BY MR. SUNDBACK:

21 Q Let me know when you have that, Mr. Dewhurst.

22 A I have that, yes.

23 Q Okay. And you will recall, in your  
24 deposition, we asked you about four of the five entities  
25 shown in Mr. Hevert's table with the highest equity

1 ratios over in the right-hand column. That would be  
2 Kingsport Power, Wheeling Power, Superior Water and  
3 Light, and Alaska Light and Power. Do you recall that?

4 A As I say, I remember the discussion of  
5 individual companies, yes. I'm not -- I certainly don't  
6 hold myself out to be -- to have detailed knowledge of  
7 individual companies.

8 Q Well, actually, during our discussion, you  
9 stated you weren't familiar with their -- their  
10 circumstances at all, right?

11 A I don't recall that, but that seems a fair  
12 characterization. I don't know the details of their  
13 situation.

14 Q Okay. Let's -- let's look at Page 7, Lines 10  
15 through 12 of your direct, please.

16 A Page 7, 10 through 12.

17 Q Yes.

18 A Yes.

19 Q You refer to the fact that FPL has represented  
20 for investors a high-quality and attractive investment  
21 opportunity, right?

22 A Yes. This is with reference to -- yes. Fine.  
23 Yep.

24 Q Okay. The next document is a copy of a -- a  
25 page from a NextEra Energy presentation that's also

1 **included in Mr. Baudino's exhibits, but it's generated**  
2 **by NextEra Energy.**

3 Do you recognize this as a map of the world  
4 that's been in a number of NextEra Energy presentations,  
5 including the Japan investor presentation in February of  
6 this year?

7 A Yes. By looking at the footnote, this appears  
8 to be from earlier this year. This is a chart that we  
9 use quite frequently in investor discussions. And so,  
10 obviously, we update the charge as the -- as the numbers  
11 change.

12 Q Okay. So, this chart shows us that you've  
13 obtained \$5 billion in financing from Japan, right?

14 A Not necessarily financing. It may be --  
15 it's -- this is fundamentally a credit view. So, it may  
16 not be funded credit.

17 Q Okay. But you are -- you have received  
18 investment funds to the tune of \$5 billion that you can  
19 trace back to Japan; is that a fair conclusion?

20 A Not quite. The language here may be a little  
21 inartful. This is a -- shows really a combination of  
22 funded investment and credit commitments, which are the  
23 key support to liquidity programs.

24 Q Okay.

25 A So, within that context, I don't recall

1 exactly how much of the five billion from Japan is  
2 funded, how much is not. But it is certainly true that  
3 our three biggest credit providers are Japanese  
4 financial institutions, which is one of the reasons I  
5 made it a practice to go to Japan once a year to say  
6 thank you.

7 **Q Good. Hope it was a good field trip.**

8 So, let's work with that, with those  
9 qualifications. You're aware, then, given your  
10 expertise and your -- your visits to Japan, that  
11 ten-year bonds currently have negative interest rates in  
12 Japan, Japanese government bonds; is that right?

13 A Yes, that's true.

14 **Q Okay. Germany, we see 3.1 billion. Do you**  
15 **see that in the map?**

16 A Yes.

17 **Q In Germany, seven-year tenor bonds have**  
18 **negative interest rates; is that right?**

19 A I don't -- I'm not so familiar with the  
20 German -- I know there are some negative values in  
21 Germany. But yes. And that's clearly one of the  
22 reasons why German and Japanese financial institutions  
23 are interested in doing business in the U.S.

24 **Q Well, we -- we could actually go through a**  
25 **number of these countries. A lot of Europe is**

1 **experiencing negative long-term yields on medium-term**  
2 **bonds; isn't that right?**

3 A Well, I don't know what you mean by "a lot of  
4 Europe," but --

5 Q **Well, there are other --**

6 A There are other instances than Germany. I  
7 would agree with that.

8 Q **Switzerland?**

9 A Yeah, Switzerland has --

10 Q **Sweden?**

11 A I don't know about Sweden, but --

12 Q **Okay.**

13 A I don't -- I have no reason to disagree.

14 Q **Okay.**

15 A It doesn't, frankly, matter.

16 Q **Okay. Let's briefly investigate your**  
17 **testimony and make sure we're -- we're all on the same**  
18 **page with the meaning of a couple of terms. Let's look**  
19 **at Page 26, Line 5.**

20 A 26, Line 5, yes.

21 Q **Yeah. Okay. So, you use the term**  
22 **"adequately." Are you using the term "adequately" in a**  
23 **normal parlance?**

24 A What do you mean by "normal parlance"?

25 Q **Is it a term of art for you when you use it**



1     **there or do you believe that it's a normal -- you're**  
2     **using it as anybody would use the word?**

3           A     I don't know because I don't know how other  
4     people would use the word.  So, let me see if I can help  
5     explain what I mean by this sentence.

6           Q     Well, can I read you a -- a definition and see  
7     **if you agree?  To expedite things.**

8           A     Yes, sir.

9           Q     Okay.  How about:  **Sufficient for a specific**  
10    **requirement or, alternatively, barely sufficient or**  
11    **satisfactory?**

12          A     And your question is --

13          Q     **Is that your understanding of the term**  
14    **"adequate"?**

15          A     Well, we may be making -- I don't know.  And  
16    we may be making more of a meal of this.  This comes at  
17    a particular point in my testimony.  I've talked about  
18    the risk profile for the business in general terms.

19                And at this point, I'm simply confirming that,  
20    in my judgment, if the Commission were to award us an  
21    ROE of 11 percent, that would appropriately, adequately,  
22    sufficiently reflect, take account of the risk profile  
23    that I described earlier.

24          Q     Okay.  **Mr. Dewhurst, I just want to**  
25    **understand, do you -- do you agree that you have used**

1 the term "adequate" in the same sense, roughly, that  
2 the -- that comports with the definition I read you? Or  
3 is that something that you can't accept?

4 A I don't know, is the honest answer. I feel  
5 like we're having a discussion of the hypothetical plant  
6 from four years ago, sir.

7 Q Well, we're having a discussion about the  
8 contents of the dictionary of the English language.  
9 You're not comfortable accepting the definition that I  
10 just read to you out of a dictionary. Is that our  
11 conclusion?

12 A No, I -- I'm sorry. I'm very confused at this  
13 point.

14 Q I think we'll -- we'll move on from that one.

15 Let's -- let's talk about Page 8, Line 17.  
16 There, you use the term "ample." Let me read you a  
17 definition of "ample" and see if you can agree with  
18 that. Have you found the term, sir?

19 A Yes, I have.

20 Q Okay. Would you agree that "ample" means:  
21 Generous or more than adequate in size, scope, or  
22 capacity; alternatively, generously sufficient to  
23 satisfy a requirement or need?

24 MR. LITCHFIELD: Madam Chairman, I would  
25 simply -- I guess I'll object on the grounds that

1 this is, now, coming across as somewhat  
2 argumentative, at a minimum in terms of the tone.  
3 So, if Counsel could ask the question with less  
4 tone, that actually might help.

5 CHAIRMAN BROWN: Or even -- Counselor, if  
6 you -- maybe you can ask him what -- how he defines  
7 "ample" rather than give him a definition.

8 MR. SUNDBACK: Well, Madam Chair, we're --  
9 we're all trying to communicate in a common  
10 fashion.

11 CHAIRMAN BROWN: Rephrase -- rephrase the  
12 question.

13 BY MR. SUNDBACK:

14 **Q When you use the term "ample" in your**  
15 **testimony, do you understand or intend it to mean**  
16 **generous or more than adequate in size, scope, or**  
17 **capacity?**

18 A Not exactly. I will be happy to explain how I  
19 do try and use it.

20 **Q So, when you say, not exactly, do you -- do**  
21 **you completely reject that definition? Or is it**  
22 **something you're going to work with at the margins?**

23 A No -- and please let me explain. Liquidity --  
24 the -- the requirement or the -- the need for liquidity  
25 or the draws on liquidity vary depending on states of

1 the world.

2 So, in a -- what I'll call a benign state of  
3 the world, a given level of liquidity may seem very  
4 large or ample. In a not-so-benign state of the world,  
5 that same amount of liquidity starts to seem a lot  
6 smaller.

7 So, it encompasses the whole of that concept.  
8 So, it's ample in today's terms, but in stress terms, it  
9 would not be.

10 **Q Okay. Now, you will recall, at the outset, we**  
11 **discussed that your references -- we discussed some**  
12 **references in your testimony to fairly compensating**  
13 **equity investors to -- strike that.**

14 And I think when I mentioned that dividends  
15 might be a component of compensation that FPL provides  
16 to NEE, you pointed out that that was only one -- one  
17 element of whether compensation was adequate for an  
18 investor. Is that -- is that a fair conclusion?

19 A Yes, with the caveat -- my response, at least  
20 when I was thinking, was in the context of a typical  
21 equity investor in a public entity. So, a typical  
22 equity investor in the public equity can receive  
23 financial benefit through a stream of dividends or  
24 through potentially selling some portion of his or her  
25 shares and realizing a capital gain.

1           That's the context in which I was thinking of  
2           it as one part of one possible way of receiving the  
3           compensation for the use of the capital originally  
4           advanced.

5           **Q     Okay. Well, let -- let's discuss some other**  
6           **ways in which FPL is or will be compensating equity**  
7           **investors in -- in it during the proposed four-year rate**  
8           **term. Why don't you flip over the -- we've got the**  
9           **definitions. We don't need to mark that.**

10                  Flip over to an excerpt from a NextEra Energy  
11                  June 16th, 2015, Europe 2015 and pre- -- the investor  
12                  presentation and --

13                  CHAIRMAN BROWN: 699.

14                  MR. SUNDBACK: 699. Thank you. A good price.

15                  (Whereupon, Exhibit No. 699 was marked for  
16                  identification.)

17                  BY MR. SUNDBACK:

18           **Q     Let me know when you've found that document,**  
19           **Mr. Dewhurst.**

20           A     I have the document. I would like a moment to  
21           look at it.

22           **Q     Certainly. For context, this is a set of**  
23           **excerpts from a document obtained from NextEra's**  
24           **website. And you will see it's, in essence, a table of**  
25           **contents in the third page, to give you some context of**

1 **where in the document the excerpts could be found.**

2 A Okay. I recognize these as select pages from  
3 a presentation that we took with us to Europe.

4 MR. LITCHFIELD: And I'll ask Mr. Sundback to  
5 explain the relevance -- in providing the context  
6 in referring us to the table of context --  
7 contents, excuse me -- yeah, pretty clearly these  
8 slides relate to NextEra Energy versus Florida  
9 Power & Light Company.

10 So, if -- I'll object on relevance, unless  
11 Mr. Sundback can convince me otherwise.

12 MR. SUNDBACK: Well, as we're going to see  
13 momentarily, this demonstrates additional  
14 compensation that flows from ratepayers of FPL to  
15 NextEra Energy. And to the extent that we're  
16 concerned about making sure that equity investors  
17 are adequately compensated in accordance with the  
18 admissions of this witness, we need to understand  
19 the totality of the compensation that's flowing  
20 from FPL ratepayers.

21 CHAIRMAN BROWN: You may proceed.

22 MR. SUNDBACK: Thank you.

23 BY MR. SUNDBACK:

24 Q All right. There is an acronym on this page,  
25 Mr. Dewhurst, NEP. Does that stand for next energy --

1 **I'm sorry -- NextEra Energy Partners?**

2 A Yes, it does.

3 **Q And a Yieldco -- could you tell us in two**  
4 **sentences what a Yieldco is to you?**

5 A I doubt it.

6 **Q Okay. We -- I think we'll get there. Let's**  
7 **look at the second hyphenated item under the first**  
8 **bullet point, extensive potential drop-down visibility.**  
9 **Is that a reference to projects that can be moved in**  
10 **terms of ownership from one entity into the Yieldco?**

11 A Yes, it's a reference to the potential for  
12 NextEra Energy resources to sell assets to NEP.

13 **Q Well, that -- that's not the only opportunity**  
14 **contemplated by this presentation, is it? You're not --**

15 MR. LITCHFIELD: Could Counsel be more  
16 specific? It's a vague question.

17 A I don't understand what you're saying.

18 **Q Well, let's keep going here, and we'll see**  
19 **whether that limitation is correct.**

20 Would you agree with me that the hyphenated  
21 item, extensive potential drop-down visibility, could  
22 include natural gas pipeline equity ownership on which  
23 FPL is a shipper?

24 A Yes, potentially, it could.

25 **Q Very good.**

1 Let's look at the second bullet point.

2 A Excuse me. Could I complete my answer?

3 CHAIRMAN BROWN: Yes.

4 Q Oh -- oh, please.

5 A The assets that you're hypothetically talking  
6 about here are assets with which FPL has a very  
7 advantageous contractual relationship, but in which the  
8 equity ownership is held by another -- another affiliate  
9 of NextEra Energy.

10 Q Well, that's not entirely true, is it, sir,  
11 with regard to, for instance, the Martin lateral?

12 A I'm sorry?

13 Q Your statement is not true to the extent that  
14 the Martin lateral might be one of the assets whose  
15 ownership is transferred, ultimately, into a Yieldco;  
16 isn't that right?

17 A No, I disagree. I think that would fit the  
18 exact same definition if the -- if the Commission were  
19 to approve that transfer, it could only be done because  
20 the entity had entered into an advantageous contract  
21 with FPL.

22 Q Currently --

23 A Advantageous from the perspective of FPL.

24 Q Currently, the Martin lateral is not owned by  
25 an entity other than FPL, is it?



1 A Correct.

2 Q Okay. Let's look at the second bullet point,  
3 strategic for NextEra Energy, the last hyphenated item,  
4 consistent with strategy of recycling capital from  
5 operating assets into new development.

6 MR. LITCHFIELD: Madam Chair?

7 CHAIRMAN BROWN: Yes.

8 MR. LITCHFIELD: Could I, once again, ask  
9 Mr. Sundback to monitor his tone a little bit? His  
10 questioning is really coming across as  
11 argumentative. Maybe it's late, but -- but it  
12 strikes me as almost hostile in many instances.

13 CHAIRMAN BROWN: Okay. Okay. Please be  
14 advised, Mr. --

15 MR. SUNDBACK: I -- I appreciate that. I'm  
16 having a little difficulty --

17 CHAIRMAN BROWN: I have some candy if you  
18 would like some.

19 (Laughter.)

20 MR. SUNDBACK: Well, you're -- my dentist  
21 would endorse that.

22 BY MR. SUNDBACK:

23 Q So, Mr. Dewhurst, we were looking at the last  
24 hyphenated item under the second bullet point. Is that  
25 an important goal from the perspective of all NextEra

1     **Energy entities?**

2           A     No. This refers specifically to a --  
3     essentially, a financing strategy for the renewable-  
4     development business. And if you will allow me to  
5     explain, we believe that our real source of competitive  
6     advantage in that business is really in the development  
7     and early stages of a project's life.

8           And once we have brought the project to  
9     fruition and got it past its teething problems, that it  
10    is, then, a very attractive quasi-financial asset to  
11    other people and that, if we -- and this was the reason  
12    we created NextEra Energy Partners -- if we create a  
13    vehicle which allows another set of investors to acquire  
14    that long-term ownership interest, that, in turn, allows  
15    us to, as we say here, recycle capital, which we can,  
16    then, put into developing new projects.

17           That's the fundamental strategy for the  
18    NextEra Energy Partners.

19           **Q     So, third bullet, significant value creation**  
20    **potential through earnings, accretion, and return on**  
21    **equity -- that is a benefit that is enjoyed by NextEra**  
22    **Energy, to a certain extent, when assets are dropped**  
23    **down into NEP; is that correct?**

24           A     Yes. We wouldn't sell the assets to a third  
25    party unless it were advantageous to both parties.

1           **Q     Let's look at the next slide, growth strategy.**  
2           **And we'll see a series of lateral bars, the second of**  
3           **which is gas pipelines. Do you see that?**

4           A     Second from the top, you mean? Yes.

5           **Q     Yes. I'm sorry.**

6                     Okay. Let's go to the next page, which looks  
7           a lot like the virtuous cycle, but is, instead, another  
8           circle. It's labeled 46 in the lower left-hand column.  
9           Do you see that?

10          A     Yes. Again, this refers specifically to  
11          the -- the role of NextEra Energy Partners.

12          **Q     Uh-huh. So, accretive drop downs, that --**  
13          **that's the, once again, the transfer potentially of**  
14          **assets or equity ownership into NEP; is that right?**

15                   MR. LITCHFIELD: Madam Chair, I'm going to  
16                   interpose an objection at this point.

17                   CHAIRMAN BROWN: Okay.

18                   MR. LITCHFIELD: This line has been going on  
19                   for quite some time now. I think we've heard  
20                   testimony both from Mr. Barrett and, now, from  
21                   Mr. Dewhurst that, with respect to the Martin-  
22                   Riviera lateral that is part of the proposed docket  
23                   in this proceeding for disposition of the  
24                   Commission, that that will only be proposed if FPL  
25                   is convinced that it will provide value to

1 customers, at which point -- and I'm reciting from  
2 our petition and from testimony in this case, from  
3 testimony that we've heard here over the last few  
4 days -- would come back to the Commission. And the  
5 Commission would have an opportunity to give it a  
6 thumbs up or a thumbs down. That -- that is the  
7 issue in front of the Commission in this  
8 proceeding.

9 Whether, at which point after the Commission  
10 were to make that decision -- and let's say the  
11 Commission agreed it looks like a great deal for  
12 customers, and approved it, at that point -- at  
13 that point, it really is irrelevant as to what the  
14 enterprise would do with that asset, whether it  
15 dropped it into NEP, whether it held on to it --  
16 whatever it did with it.

17 The relevance of this discussion is just well  
18 outside the scope of this docket, both temporally  
19 and substantively.

20 MR. SUNDBACK: Madam Chair?

21 CHAIRMAN BROWN: You may -- yes.

22 MR. SUNDBACK: We are -- we're here to explore  
23 the witness' contentions about the adequacy of  
24 compensation to equity investors, including to  
25 NextEra Energy in FPL.

1           And as we see from this cycle, if we can be  
2           allowed to conclude, at least two of the elements  
3           shown on this cycle provide value to NextEra  
4           Energy, in addition to any dividends directly  
5           coming from FPL or other sources.

6           So, to say we're here to set -- to determine  
7           whether investors in FPL, NextEra Energy is  
8           adequately compensated, and ignore the dollars that  
9           FPL ratepayers flow through these affiliates to  
10          help support NextEra Energy and, therefore, provide  
11          additional compensation --

12          CHAIRMAN BROWN: Okay.

13          MR. SUNDBACK: -- associated with their  
14          ownership is to put blinders on.

15          CHAIRMAN BROWN: All right. Thank you. Thank  
16          you.

17          Staff.

18          MS. BROWNLESS: Well, it is very clear that  
19          the details of FP&L's case -- that what they are  
20          arguing is that the ROE adder is necessary in order  
21          for them to maintain their strong financial  
22          position as well as to recognize the exceptional  
23          management of their company.

24          And I think that South Florida has a point  
25          when they say that, to the extent that all the ROE

1 analysis that we've seen supporting both their  
2 return on equity, as well as the appropriateness of  
3 the adder -- some of it is based upon stock prices  
4 for the parent because FPL doesn't issue its own  
5 stock.

6 So, in that instance, I think, although we  
7 appear to be going into a bit of more depth than I  
8 think is appropriate, I think South Florida does  
9 have a legitimate right to inquire.

10 CHAIRMAN BROWN: All right. Mr. Sundback,  
11 I'll let you proceed. One more question or two,  
12 and limit that conversation.

13 MR. SUNDBACK: We -- we have two more  
14 questions, hopefully, on this -- whatever it is.  
15 This --

16 CHAIRMAN BROWN: No more than --

17 MR. SUNDBACK: Circle.

18 CHAIRMAN BROWN: No. No more -- no more than  
19 two, please.

20 MR. SUNDBACK: Okay.

21 BY MR. SUNDBACK:

22 **Q So, Mr. Dewhurst, the retained LP stake at the**  
23 **bottom of the cycle -- NextEra Energy, when units are**  
24 **issued -- units or shares in NEP are issued -- retains**  
25 **some unit interest; is that correct?**

1           A       They may or they may not. Let me just make  
2       sure that everyone here is quite clear that no FPL  
3       assets have anything to do with NEP.

4           Q       But let me make sure I understand,  
5       **Mr. Dewhurst, doesn't FPL have contracts with Sabal**  
6       **Trail and FSC, which either had been placed in or**  
7       **NextEra Energy has advised investors it is contemplating**  
8       **placing in NEP?**

9           A       Correct. Those are contracts. Those are not  
10       FPL assets.

11          Q       Very well. And that cash stream backstops  
12       those investments and, consequently, helps fortify the  
13       value of the retained stake at the bottom of this circle  
14       held by NextEra, and also feeds the IDR fee interest in  
15       the left-hand side of that circle.

16               MR. LITCHFIELD: And I'll object, again, Madam  
17       Chair. The discussion that we're going into is a  
18       discussion that was never had at the time that  
19       these contracts were approved by this very  
20       Commission, what, roughly 18 to 20 months ago, as I  
21       recall. They were approved by the Commission as --  
22       as in the public interest and as good for Florida  
23       Power & Light Company.

24               It strikes me that -- that any attempt to  
25       re-litigate that at this point is not only

1           inappropriate, but completely irrelevant, again, to  
2           the -- to this proceeding.

3           MR. SUNDBACK: Madam Chair, we're not trying  
4           to re-litigate whether those contracts should have  
5           been entered into. What we're trying to point out  
6           is, when we talk about adequacy of compensation to  
7           NextEra Energy because of its ownership of FPL, we  
8           can't just look at the dividends, which we keep  
9           hearing are offset by capital investments.

10           We have to look at all the benefits that flow  
11           to NextEra Energy as the owner of FPL. And one of  
12           those benefits is its ability to cause FPL to  
13           backstop --

14           CHAIRMAN BROWN: All right. Okay. I have to  
15           be honest, at this point, I -- I just can't make a  
16           ruling on this. I think we -- we -- it's about --  
17           almost 11:00. I think we're going to have to  
18           adjourn for the evening.

19           MR. SUNDBACK: But --

20           CHAIRMAN BROWN: Recess for the evening.

21           MR. SUNDBACK: Madam Chair, if I -- I could,  
22           I've got two more questions, and I think we -- we  
23           could wrap it up from -- from our --

24           CHAIRMAN BROWN: You're going to have to --  
25           you're going to have to get off this line of



1 question.

2 MR. SUNDBACK: Well, what I -- what I -- here  
3 is my proposal for your consideration, Madam Chair.  
4 I would ask Mr. Dewhurst to look at the last  
5 document, which is his speech about Yieldcos, and  
6 tell us whether it's a true and correct copy of his  
7 speech.

8 And to the extent that we wouldn't hear an  
9 objection that we hadn't cross-examined  
10 sufficiently on it, we would ask that it be marked  
11 for identification and put it in the record. And  
12 we -- we would be done and brief the issue from  
13 there, if that would be acceptable from your --  
14 your and the panel's perspective.

15 CHAIRMAN BROWN: I've made my point. I think  
16 I hit my point right now.

17 FPL.

18 MR. LITCHFIELD: Could we have -- could the  
19 witness have a minute to flip through this, as well  
20 as Counsel here?

21 CHAIRMAN BROWN: Absolutely.

22 MR. LITCHFIELD: (Examining document.)

23 MR. SUNDBACK: And just for context, Madam  
24 Chair, in the last -- third-to-last paragraph of  
25 the speech, Mr. Dewhurst tells us how much the IDR

1 cash stream is going to benefit NextEra Energy  
2 shareholders. So, it's clearly relevant to the  
3 compensation that NextEra is getting because of its  
4 affiliation with, among other entities, FPL. I  
5 understand Mr. Dewhurst's position that --

6 CHAIRMAN BROWN: There hasn't been an  
7 objection yet. So, hold on.

8 MR. SUNDBACK: Okay.

9 MR. LITCHFIELD: Yeah, again, we're --  
10 Mr. Dewhurst's testimony relates to the financial  
11 strength and stability of Florida Power & Light  
12 Company, the jurisdictional entity that provides  
13 electric service to four-and-a-half million  
14 customers in the state of Florida.

15 His testimony does not relate to the financial  
16 strength of the NextEra Energy. That's not before  
17 this Commission. It's not an issue in this rate  
18 case. And I think it's highly improper to go  
19 through this level of detail on these issues,  
20 particularly at 10:55 in the evening.

21 CHAIRMAN BROWN: So, the proposal?

22 MR. SUNDBACK: Madam Chair, our proposal is  
23 that we mark as Exhibit No. 700, if our record  
24 keeping is correct, the address or -- or speech of  
25 Mr. Dewhurst to the Platts 16th annual financing

1 U.S. Power Conference, and ask him whether it's a  
2 true and correct copy, to the best of his  
3 information, knowledge, and belief, of his speech.

4 And then, to the extent that we're not going  
5 to otherwise be precluded from putting it in the  
6 record, because we didn't conduct more cross  
7 examination on it, we would move its admission,  
8 along with the other documents that have been  
9 marked.

10 MR. LITCHFIELD: So, I have a -- I have a  
11 proposal as well, then. I might be persuaded to  
12 agree to that, subject to Mr. Dewhurst's comment as  
13 to whether there is any aspect of this document  
14 that he would like to address in terms of putting  
15 it in the proper context.

16 THE WITNESS: I would like to address a couple  
17 of things.

18 CHAIRMAN BROWN: Okay. Just one second.

19 Let's mark it first for identification as  
20 Exhibit 700. All right.

21 And please give the title.

22 MR. SUNDBACK: Madam Chair, so -- I'm happy to  
23 move it. I want to ask --

24 CHAIRMAN BROWN: No --

25 MR. SUNDBACK: -- Mr. Dewhurst whether this is

1 a true and correct copy --

2 CHAIRMAN BROWN: Title. Title. Just the  
3 title of the document --

4 MR. SUNDBACK: I'm sorry.

5 CHAIRMAN BROWN: -- for identification  
6 purposes.

7 MR. SUNDBACK: I'm sorry, Madam Chair. We  
8 would move -- we would mark -- asked to have marked  
9 as Exhibit 700 an address or article by  
10 Mr. Dewhurst entitled "The emerging role of the  
11 Yieldco at Platts 16th annual financing U.S.  
12 Power" --

13 CHAIRMAN BROWN: I'm going to say article by  
14 Dewhurst at U.S. Power Conference.

15 MR. SUNDBACK: Sorry.

16 (Whereupon, Exhibit No. 700 was marked for  
17 identification.)

18 CHAIRMAN BROWN: All right. Please proceed.  
19 Dewhurst -- Mr. Dewhurst?

20 THE WITNESS: I'm sorry, ma'am. May I speak  
21 now?

22 MR. SUNDBACK: I -- Madam Chair, can we ask  
23 whether it's a true and correct copy so that we  
24 can --

25 CHAIRMAN BROWN: Yes.

1 MR. SUNDBACK: -- establish that?

2 CHAIRMAN BROWN: Yes.

3 BY MR. SUNDBACK:

4 Q Mr. Dewhurst, to the best of your information,  
5 knowledge, and belief, does this look like a true and  
6 correct copy of the printed version of your address or  
7 article to the 16th annual financing U.S. Power  
8 Conference of Platts?

9 A I don't know if it's the final copy, but it  
10 certainly appears to be very closely -- close to the  
11 speech that I actually delivered.

12 Q Would you -- would you accept a representation  
13 or would it help you in confirming it, when you go about  
14 confirming it, to know that it was downloaded from the  
15 NextEra Energy website, investor's section?

16 A If that representation is correct, then that  
17 would lead me to the conclusion that it was, in fact,  
18 the final prepared text. Whether, in fact, I exactly  
19 delivered it in this fashion, I can't recall.

20 Q Fair enough.

21 MR. LITCHFIELD: And then, for purposes of the  
22 context Mr. Dewhurst -- for purposes of agreeing to  
23 the stipulation that it go into the record -- would  
24 you provide that now?

25 THE WITNESS: Yes.

1 MR. SUNDBACK: I apologize for interrupting,  
2 but I want to understand that FPL is amenable to  
3 stipulating if that's going to be -- if  
4 Mr. Dewhurst is going to --

5 MR. LITCHFIELD: Yes. Yes, subject to  
6 Mr. Dewhurst's explanation or the context, yes.

7 MR. SUNDBACK: Is that amenable to Madam  
8 Chair?

9 CHAIRMAN BROWN: Yes, absolutely.

10 MR. SUNDBACK: Okay. Thank you.

11 THE WITNESS: As long as you'll give me a  
12 little bit explanation because it may take a little  
13 bit --

14 CHAIRMAN BROWN: Take your time.

15 THE WITNESS: So, the context here is this is  
16 a vehicle, as I described earlier, for the purpose  
17 of recycling capital, primarily at NextEra Energy  
18 resources, and potentially other NextEra Energy  
19 affiliates.

20 It will have nothing to do with FPL except in  
21 the following sense: Whenever FPL enters into a  
22 contract with any entity, cash moves from FPL to  
23 that entity in return for whatever goods or  
24 services we acquire. We would not enter into that  
25 contract unless that was a good deal for FPL and

1 its customers.

2 It is, then, absolutely the case that the  
3 equity owner of whatever business we contract with  
4 is entitled to take the cash flows coming from that  
5 contract and do whatever they like with them.

6 And in that sense, to the extent that there is  
7 a NextEra Energy affiliate that holds a contract  
8 with FPL, and if that contract has been blessed by  
9 this Commission, then it is entirely appropriate  
10 for the equity owner of that affiliate to do  
11 whatever it likes with the resulting cash-flow  
12 stream because it will have had to have put up  
13 capital, equity, and debt to create whatever the  
14 business is that's selling its services to FPL.

15 And therefore, the cash flows are going to  
16 compensate the equity and debt-holders of that  
17 entity. That is, hopefully, adequate compensation  
18 for those investors, but it is additional capital  
19 that the equity owner has put up.

20 So, there is no extra value, as Mr. Sundback  
21 is trying to, frankly, insinuate.

22 CHAIRMAN BROWN: Thank you.

23 MR. SUNDBACK: Madam Chair, as I understand  
24 it, it's -- it's your preference that that complete  
25 our inquiry on that topic; is that fair? Or are

1           you willing to allow us to pursue cross examination  
2           on this?

3                   CHAIRMAN BROWN: No cross on that. You're  
4           he -- he just testified. And I think that's fine.

5                   MR. SUNDBACK: Okay. Well, that -- I think --  
6           I think that concludes our questions. If you will  
7           give me one moment, I'll confirm that.

8                   (Brief pause.)

9           BY MR. SUNDBACK:

10           **Q     Mr. Dewhurst, turning to the ROE adder, can**  
11           **you identify for us the other state jurisdictions that**  
12           **have authorized a 50-basis-point or greater adder for**  
13           **their electric utilities on a comparable basis to that**  
14           **advocated by FPL?**

15           A     I know of none. I think this is an extension  
16           of something that has been done to some extent in  
17           Florida, as I discussed in my deposition. I think it is  
18           a bit new. I have not looked to precedent anywhere  
19           else. I'm justifying this in my own mind on the  
20           advantages that, I think, it can bring, but it is a  
21           little bit new and different, yes.

22                   MR. SUNDBACK: Thank you. I think that  
23           concludes our questions. Thank you for your time,  
24           Mr. Dewhurst.

25                   Thank you, Madam Chair.



1 CHAIRMAN BROWN: You're welcome.

2 Staff? How many questions do you have?

3 MS. BROWNLESS: I have a substantial number of  
4 questions. And frankly, I am so tired that I do  
5 not think I can do them justice.

6 CHAIRMAN BROWN: All right.

7 MS. BROWNLESS: If I am given some --

8 CHAIRMAN BROWN: That's all you have to say.  
9 That's all you have to say.

10 It's 11:00. Mr. Dewhurst, unfortunately,  
11 you're going to have to come back tomorrow.

12 THE WITNESS: I am at your disposal.

13 CHAIRMAN BROWN: All right. And with that, we  
14 will reconvene tomorrow morning at 9:30.

15 MS. ROBERTS: Madam Chair --

16 CHAIRMAN BROWN: And also -- thank you -- for  
17 the record, Walmart will be excused for tomorrow,  
18 but will be back next week. You're excused.

19 MS. ROBERTS: Yes, thank you. My colleague  
20 Derrick Williamson will be in next week. And we  
21 have confirmed with Steve he will be ready  
22 Wednesday at 1:00.

23 CHAIRMAN BROWN: Wonderful.

24 MS. ROBERTS: Thank you.

25 CHAIRMAN BROWN: You're welcome.

1 Safe travels.

2 (Transcript continues in sequence in Volume

3 21.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA )  
COUNTY OF LEON )

I, ANDREA KOMARIDIS, Court Reporter, do hereby  
certify that the foregoing proceeding was heard at the  
time and place herein stated.

IT IS FURTHER CERTIFIED that I  
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DATED THIS 26th day of August, 2016.



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ANDREA KOMARIDIS  
NOTARY PUBLIC  
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EXPIRES FEBRUARY 09, 2017